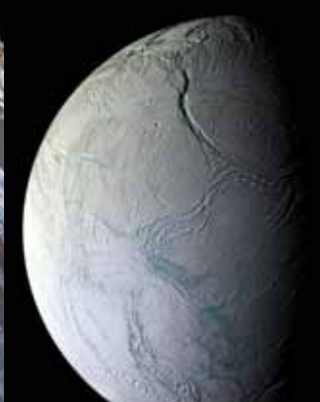
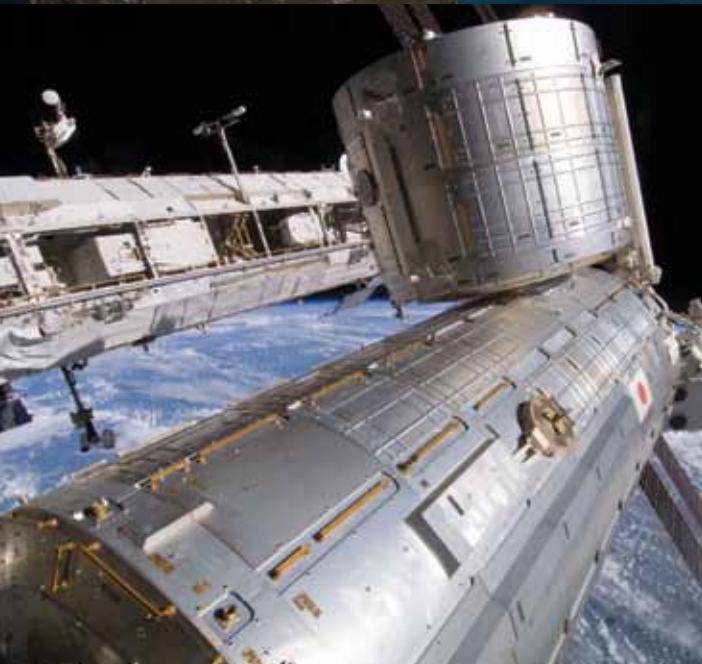




FY 2009 Performance and Accountability Report

Financials



Message from the Office of the Chief Financial Officer

November 16, 2009



The National Aeronautics and Space Administration (NASA) takes seriously its responsibility for stewardship of the resources entrusted to it and for reporting on the Agency's performance and outcomes to the citizens of the United States, the President, and the Congress. Meeting these responsibilities has been a joint effort by the Agency's managers, employees and business partners. This Performance and Accountability Report details the results achieved through that joint effort.

To continue to meet the Agency's financial management responsibilities this year, NASA executed on its foundation for financial management excellence, which was established to improve operation of financial systems and processes and to drive financial performance across the Agency's operations and projects. As a result, NASA resolved a long-standing material weakness identified in the FY 2008 *Report on Internal Controls* related to financial systems, analyses, and oversight. Resolving this prior year weakness provides greater assurance to Agency decision-makers and to external stakeholders of the reliability of NASA's financial information. Also in FY 2009, through joint efforts by the Agency's managers, employees, and business partners, NASA implemented the American Recovery and Reinvestment Act of 2009 (ARRA), implemented the Federal Government's eTravel system, and continued to develop and deliver financial management education through the Office of the Chief Financial Officer's Professional Development initiative.

NASA's independent auditors reported a repeat material weakness related to the Agency's legacy Property, Plant, and Equipment (PP&E) in this year's *Report on Internal Controls*. Despite the improvements made in legacy PP&E accounting processes and systems, the auditors were unable to obtain sufficient evidential support for the amounts presented in the Agency's financial statements to enable them to express an opinion on those statements. The Agency is committed to resolving the legacy property weaknesses, particularly through the guidance contained in the recent release of Statement of Federal Financial Accounting Standard 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*.

We look forward to sharing more of NASA's progress and successes in financial and resource management excellence.

A handwritten signature in black ink that reads "Terry Bowie". The signature is stylized with a large, sweeping "T" and a cursive "Bowie".

Terry Bowie
Deputy Chief Financial Officer

Introduction to the Principal Financial Statements



The principal financial statements have been prepared to report the financial position and results of operations of the National Aeronautics and Space Administration (NASA), pursuant to the requirements of 31 U.S.C. 3515 (b). While the Statements have been prepared from the books and records of NASA in accordance with Generally Accepted Accounting Principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB) in Circular No. A-136, Financial Reporting Requirements, the statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2008 are included where available. The financial statements, which describe the results of Agency operations and the Agency's financial position, are the responsibility of NASA's management. NASA's Principal Financial Statements include the following:

The **Consolidated Balance Sheet** provides information on assets, liabilities, and net position as of the end of the year, similar to balance sheets reported in the private sector. Assets must equal the sum of liabilities and net position.

The **Consolidated Statement of Net Cost** reports the components of the net costs of the Agency's operations for the period. The net cost of operations consists of the gross cost incurred by the Agency less any exchange (i.e., earned) revenue from activities.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available and their status for the period. Information in this statement is reported on the budgetary basis of accounting.

Required Supplementary Stewardship Information provides information on the Agency's Research and Development costs.

Required Supplementary Information contains a Combined Statement of Budgetary Resources and information on Deferred Maintenance.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operation of NASA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of NASA in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Financial Statements, Notes, and Supplemental Information

National Aeronautics and Space Administration Consolidated Balance Sheet As of September 30, 2009 and September 30, 2008 (In Millions of Dollars)

	Unaudited 2009	Restated Unaudited 2008
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 8,854	\$ 9,292
Investments (Note 4)	17	17
Accounts Receivable (Note 5)	216	74
Total Intragovernmental	9,087	9,383
Accounts Receivable, Net (Note 5)	2	2
Inventory and Related Property, Net (Note 6)	3,019	2,883
Property, Plant and Equipment, Net (Note 7)	11,577	15,028
Total Assets	\$ 23,685	\$ 27,296
Stewardship PP&E (Note 8)		
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	\$ 130	\$ 102
Other Liabilities (Note 11)	153	109
Total Intragovernmental	283	211
Accounts Payable	1,254	1,415
Federal Employee and Veteran Benefits	57	64
Environmental and Disposal Liabilities (Note 10)	922	943
Other Liabilities (Note 11)	1,633	1,615
Total Liabilities	4,149	4,248
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	6,128	6,389
Cumulative Results of Operations	13,408	16,659
Total Net Position	19,536	23,048
Total Liabilities and Net Position	\$ 23,685	\$ 27,296

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Consolidated Statement of Net Cost
As of September 30, 2009 and September 30, 2008
(In Millions of Dollars)

	Unaudited 2009	Unaudited 2008
Cost by Business Line (Note 13):		
Aeronautics Research		
Gross Costs	\$ 828	\$ 779
Less: Earned Revenue	113	86
Net Costs	<u>715</u>	<u>693</u>
Exploration Systems		
Gross Costs	5,153	4,811
Less: Earned Revenue	33	28
Net Costs	<u>5,120</u>	<u>4,783</u>
Science		
Gross Costs	6,606	6,392
Less: Earned Revenue	616	511
Net Costs	<u>5,990</u>	<u>5,881</u>
Space Operations		
Gross Costs	11,070	7,449
Less: Earned Revenue	428	418
Net Costs	<u>10,642</u>	<u>7,031</u>
Net Cost of Operations	<u><u>\$ 22,467</u></u>	<u><u>\$ 18,388</u></u>

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Consolidated Statement of Changes in Net Position
As of September 30, 2009 and September 30, 2008
(In Millions of Dollars)

	Unaudited 2009	Restated Unaudited 2008
Cumulative Results Of Operations:		
Beginning Balances	\$ 16,659	\$ 23,242
Adjustments:		
Correction of Errors (Note 17)	-	(6,580)
Beginning Balances, As Adjusted	<u>16,659</u>	<u>16,662</u>
Budgetary Financing Sources:		
Appropriations Used	18,996	18,240
Nonexchange Revenue	8	6
Other Financing Sources:		
Donations and Forfeitures of Property	10	-
Transfers In/Out Without Reimbursement	57	2
Imputed Financing	151	143
Other	(6)	(6)
Total Financing Sources	<u>19,216</u>	<u>18,385</u>
Net Cost of Operations	<u>(22,467)</u>	<u>(18,388)</u>
Net Change	<u>(3,251)</u>	<u>(3)</u>
Cumulative Results of Operations	<u>13,408</u>	<u>16,659</u>
Unexpended Appropriations:		
Beginning Balance	6,389	7,470
Budgetary Financing Sources:		
Appropriations Received	18,784	17,402
Other Adjustments	(49)	(243)
Appropriations Used	(18,996)	(18,240)
Total Budgetary Financing Sources	<u>(261)</u>	<u>(1,081)</u>
Unexpended Appropriations	<u>6,128</u>	<u>6,389</u>
Net Position	<u>\$ 19,536</u>	<u>\$ 23,048</u>

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Combined Statement of Budgetary Resources
As of September 30, 2009 and September 30, 2008
(In Millions of Dollars)

	Unaudited 2009	Unaudited 2008
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1:	\$ 994	\$ 2,594
Recoveries of Prior Year Unpaid Obligations	328	548
 Budgetary Authority		
Appropriation	18,786	17,403
Spending Authority from Offsetting Collections:		
Earned		
Collected	1,105	1,120
Change in Receivables from Federal Sources	141	(64)
Change in Unfilled Customer Orders		
Advance Received	27	(7)
Without Advance from Federal Sources	165	(58)
Subtotal	<u>20,224</u>	<u>18,394</u>
 Permanently Not Available		
Cancellations of Expired and No-year Accounts	(49)	(51)
Enacted Reductions	<u>-</u>	<u>(192)</u>
 Total Budgetary Resources	<u>\$ 21,497</u>	<u>\$ 21,293</u>
 Status of Budgetary Resources:		
Obligations Incurred (Note 14):		
Direct	\$ 18,702	\$ 19,177
Reimbursable	1,475	1,122
Subtotal	<u>20,177</u>	<u>20,299</u>
 Unobligated Balance:		
Apportioned	1,130	786
Unobligated Balance Not Available	<u>190</u>	<u>208</u>
 Total Status of Budgetary Resources	<u>\$ 21,497</u>	<u>\$ 21,293</u>

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Combined Statement of Budgetary Resources (Continued)
As of September 30, 2009, and September 30, 2008
(In Millions of Dollars)

	Unaudited 2009	Unaudited 2008
Change in Obligated Balance:		
Obligated Balances, Net		
Unpaid Obligations Brought Forward, October 1	\$ 8,975	\$ 8,176
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	<u>676</u>	<u>798</u>
Total Unpaid Obligated Balances, Net	8,299	7,378
 Obligations Incurred, Net	 20,177	 20,299
Less: Gross Outlays	20,309	18,952
Less: Recoveries of Prior Year Unpaid Obligations, Actual	328	548
Change in Uncollected Customer Payments from Federal Sources	<u>(306)</u>	<u>122</u>
	<u><u>\$ 7,533</u></u>	<u><u>\$ 8,299</u></u>
 Obligated Balance, Net, End of Period		
Unpaid Obligations	\$ 8,516	\$ 8,975
Less: Uncollected Customer Payments from Federal Sources	<u>983</u>	<u>676</u>
 Total, Unpaid Obligated Balance, Net, End of Period	 <u><u>\$ 7,533</u></u>	 <u><u>\$ 8,299</u></u>
 Net Outlays:		
Net Outlays:		
Gross Outlays	\$ 20,313	\$ 18,952
Less: Offsetting Collections	1,136	1,113
Less: Distributed Offsetting Receipts	<u>1</u>	<u>(1)</u>
 Net Outlays	 <u><u>\$ 19,176</u></u>	 <u><u>\$ 17,840</u></u>

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Aeronautics and Space Administration (NASA) is an independent Agency established by Congress on October 1, 1958 by the National Aeronautics and Space Act of 1958. NASA was incorporated from the Agency's predecessor organization, the National Advisory Committee for Aeronautics, which provided technical advice to the United States aviation industry and performed aeronautics research. Today, NASA serves as the fulcrum for initiatives by the United States in civil space and aviation.

NASA is organized into four Business Lines which focus on the following objectives:

- Aeronautics Research: conducting research which will significantly enhance aircraft performance, environmental compatibility, and safety, and will enhance the capacity, flexibility, and safety of the future air transportation system;
- Exploration Systems: creating new capabilities, supporting technologies and foundational research for affordable, sustainable human and robotic exploration;
- Science: exploring the Earth, Moon, Mars, and beyond; charting the best route of discovery, and reaping the benefits of Earth and space exploration for society; and
- Space Operations: providing critical enabling technologies for much of the rest of NASA through the Space Shuttle, the International Space Station, and flight support.

In addition, NASA has nine support offices, including the Office of the Chief Financial Officer and Institutions & Management. The Agency's structure includes a Strategic Management Council, an Operations Management Council and a Program Management Council to integrate NASA's strategic, tactical and operational decisions, and a number of other committees supporting NASA's focus and direction. The organizational structure is designed to streamline and position the Agency to better implement the Vision for Space Exploration.

The nine NASA Centers, NASA Headquarters, and the Jet Propulsion Laboratory carry out the activities of the Mission Directorates. The Jet Propulsion Laboratory is a federally funded Research and Development center owned by NASA but managed by an independent contractor.

NASA Shared Services Center (NSSC) opened March 1, 2006 on the grounds of Stennis Space Center. The NSSC is a public/private partnership between NASA and Computer Sciences Corporation service providers. The mixed staff of civil service and contractor personnel performs a variety of consolidated transactional and administrative activities once carried out at each NASA center and Headquarters. These functions consisted of responsibilities in the following areas: Financial Management, Human Resources, Information Technology and Procurement.

The accompanying financial statements of NASA include the accounts of all funds which have been established and maintained to account for the resources under the control of NASA management.

Basis of Accounting and Presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America and standards as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements, Revised (June 10, 2009)*. FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards-setting body for United States government entities. The statements present the financial position, net cost of operations, changes in net position, and budgetary resources of NASA, as required by the Chief Financial Officers Act of 1990, Public Law (P.L.) 101-576, and the Government Management Reform Act of 1994 (P.L. 101-356).

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements should be read with the realization they are a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing resources and legal authority to do so. The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Budgets and Budgetary Accounting

NASA follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, Preparation, Submission and Execution of the Budget. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Congress funds NASA through seven main appropriations: Science, Aeronautics, Exploration, Space Operations, Education, Cross-Agency Support and Inspector General to accomplish the goals of the Agency's Business Lines. In 2009, NASA also received funding under the American Recovery and Reinvestment Act of 2009 through five appropriations: Science Recovery Act, Aeronautics Recovery Act, Exploration Recovery Act, Cross-Agency Support Recovery Act and Inspector General Recovery Act. Reimbursements to NASA are used to fund agreements between the Agency and other Federal entities or the Public. As part of its reimbursable program, NASA launches devices into space and provides tracking and data relay services for the U.S. Department of Defense and the Department of Commerce (National Oceanic and Atmospheric Administration).

Research and Development and Similar Costs

NASA makes substantial Research and Development (R&D) investments for the benefit of the United States. NASA's R&D programs include activities to extend our knowledge of Earth, its space environment, and the universe; and to invest in new aeronautics and advanced space transportation technologies supporting the development and application of technologies critical to the economic, scientific, and technical competitiveness of the United States. Accordingly, NASA applies the Financial Accounting Standard Board's (FASB) Accounting Standards Codification (ASC) 730-10-25, *Research and Development-Recognition*, and FASB ASC 730-10-50 *Research and Development- Disclosure*, to its R&D projects.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NASA requires major contractors to provide an estimate of their anticipated billing prior to their sending the actual invoice to the agency. In addition, NASA requires the contractors to provide an estimate for the next month's anticipated work. When NASA receives these estimates they are compared to the contract under which the work is performed. If the estimate exceeds a specified funding line item the program manager and the procurement official, as necessary, review the estimate prior to posting in the general ledger as an estimated liability. If the review is not completed within the timeframe for quarterly or yearly reporting, the Agency uses the estimates of activity through the current period to establish an estimated liability. However, in this instance the agency fully recognizes that "no agency has the authority to pay liabilities not covered by budgetary resources." Liability to the contractor is not established by receipt of these estimates, but only when accepted by the Agency.

Fund Balance with Treasury

The Department of the Treasury (Treasury) processes cash receipts and disbursements for NASA. Fund Balance with Treasury includes general funds, trust funds, deposit funds, and budget clearing accounts.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in U.S. Government Securities

Investments include the following Intragovernmental non-marketable securities:

(1) National Aeronautics and Space Administration Endeavor Teacher Fellowship Trust Fund established from public donations in tribute to the crew of the Space Shuttle Challenger.

(2) Science, Space and Technology Education (Challenger) Trust Fund established for programs to improve science and technology education.

The Endeavor Trust Fund balance is invested in short-term bills, while the Challenger Trust Fund balance is invested in short-term bills and long-term bonds. P.L. 100-404 requires a quarterly payment of \$250,000 is sent to the Challenger Center from interest earned on the Challenger investments. In order to meet the requirement of providing funds to the Challenger Center, NASA invests the bi-annual interest earned in short-term bills that mature in order to provide \$250,000 at the end of every quarter. Any interest received and not needed for the quarterly payment to the Challenger Center is invested in a bond maturing on February 15, 2019.

P.L. 102-195 requires the interest earned from the Endeavor investments be used to create the Endeavor Teacher Fellowship Program; however, there have been no funds obligated for this purpose to date.

Accounts Receivable

Most receivables are for intra-governmental reimbursements of research and development costs related to satellites and launch services. A small portion of NASA accounts receivable are debts to the Agency by the non-Federal government entities. Allowances for doubtful non-Federal accounts are based on factors such as, aging of accounts receivable, debtors' ability to pay, payment history, and other relevant factors. Also, doubtful non-federal debts over 180 days are referred to the Treasury Department for collection or cross-servicing. Under the cross-servicing program, Treasury can withhold payments due from Treasury to a non-Federal debtor to the extent of debt owed to the Federal government. The accounts receivable due to non-Federal debt remain on NASA books as assets until Treasury determines that they are uncollectible, at which point they are written off.

Inventory and Related Property

Inventory held by Centers and contractors repetitively procured, stored and issued on the basis of demand are considered Operating Materials and Supplies, a category of Inventory and Related Property. Certain NASA contractors' inventory management systems do not distinguish between items to be properly classified as materials and those to be properly classified as depreciable property. NASA reclassifies as property, all re-usable materials valued at \$100,000 or greater with a useful life of 2 years or more, in support of large-scale assets such as the Space Shuttle and the International Space Station.

Property, Plant and Equipment

These financial statements report depreciation expense using the straight-line method, using the mid-year convention when assets are placed into service for all categories of PP&E. Property with a unit cost of \$100,000 or more and a useful life of 2 years or more and an alternative future use is capitalized. Capitalized costs include costs incurred by NASA to bring the property to a form and location suitable for its intended use. Under provisions of the Federal Acquisition Regulation (FAR), contractors are responsible for control over and accountability for Government-owned property in their possession.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized costs for internally developed software include the full costs (direct and indirect) incurred during the software development stage only. For purchased software, capitalized costs include amounts paid to vendors for the software and material internal costs incurred by the Agency to implement and make the software ready for use through acceptance testing. When NASA purchases software as part of a package of products and services (for example: training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements), capitalized and non-capitalized costs of the

package are allocated among individual elements on the basis of a reasonable estimate of their relative fair market values. Costs not susceptible to allocation between maintenance and relatively minor enhancements are expensed.

NASA capitalizes costs for internal use software when the total projected cost is \$1,000,000 or more and the expected useful life of the software is 5 years or more.

NASA began depreciating the International Space Station in Fiscal Year (FY) 2001 when manned by the first permanent crew. Only the Station's major elements in space are depreciated; any on-ground elements are reported as Assets Under Construction (AUC) until launched and incorporated into the existing Station structure.

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources are liabilities covered by realized budgetary resources as of the balance sheet date. Realized budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year, and spending authority from offsetting collections. Examples include accounts payable and salaries. Accounts Payable includes amounts recorded for the receipt of goods or services received.

Liabilities and Contingencies Not Covered by Budgetary Resources

Generally liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. Liabilities not covered by budgetary resources include certain environmental matters, legal claims, pensions and other retirement benefits (ORB), workers' compensation, annual leave, and closed appropriations.

Federal Employee and Veterans' Benefits

A liability was recorded for workers' compensation claims related to the Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor. The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA Program initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants.

The FECA liability includes the actuarial liability for estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. This liability is reported on the Federal Employee and Veteran Benefits line on the balance sheet. The present value of these estimates at year-end was calculated by the Department of Labor using a discount rate of 4.22% in FY 2009 and 4.37% in FY 2008. This liability includes the estimated future costs for claims incurred but not reported or approved as of the end of each year.

Personnel Compensation and Benefits

Annual Sick and Other Leave

Annual leave is accrued as it is earned; the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Benefits

Agency employees participate in the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, NASA makes contributions of 7.0 percent of pay. For FERS employees, NASA makes contributions of 11.2 percent to the defined benefit plan, contributes 1 percent of pay to a retirement saving plan (contribution plan), and matches employee contributions up to an additional 4 percent of pay. For FERS employees, NASA also contributes to employer's matching share for Social Security taxes.

Insurance Benefits

The Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires Government agencies to report the full cost of Federal Employee Health Benefits (FEHB), and the Federal Employees Group Life Insurance (FEGLI) Programs. NASA uses the applicable cost factors and imputed financing sources provided by the Office of Personnel and Management.

Environmental and Disposal Liabilities

Environmental and Disposal Liabilities represent anticipated cleanup costs resulting from: (1) operations that include facilities obtained from other governmental entities as well, that have resulted in contamination from waste disposal methods, leaks, spills, and other past activity that created a public health or environmental risk; and, (2) estimated total cleanup costs associated with the removal, containment, and/or disposal of hazardous wastes or material and/or property that have been deferred until operation of associated PP&E ceases either permanently or temporarily. An annual determination is made of the status of these unfunded liabilities.

NASA changed its estimate for FY 2009 to meet its new guidance for developing long term estimates. The guidance establishes the estimate amount as both probable and reasonably estimable for 30 years. If a sufficiently reliable engineering estimate has been developed beyond this 30 year period, such estimate will be considered in developing the accrual.

Other

Certain amounts for fiscal year 2008 have been reclassified to be consistent with fiscal year 2009 presentation.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 2. NON-ENTITY ASSETS

Non-Entity Assets are those assets held by NASA, but are not available for use by NASA.

(In Millions of Dollars)	2009	2008
Intragovernmental:		
Fund Balance with Treasury	\$ 0	\$ 0
Total Intragovernmental	0	0
Total Non-Entity Assets	0	0
Total Entity Assets	23,685	27,296
 Total Assets	 \$ 23,685	 \$ 27,296

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury represents the aggregate amount of the Agency's funds held on deposit with the U.S. Treasury that are available to pay liabilities. The fund types include trust, general and revolving funds and other funds.

Trust Funds include balances in Endeavor Teacher Fellowship Trust Fund; National Space Grant Program; Science, Space and Technology Education Trust Fund; and Gifts and Donations.

General Funds primarily consists of appropriated funds for the Agency.

Other Fund types include Working Capital Fund; Fines, Penalties, and Forfeitures; General Fund Proprietary Interest; Collections of Receivables from Canceled Appropriations; General Fund Proprietary Receipts; Budget Clearing and Suspense; Unavailable Check Cancellation; Undistributed Intragovernmental Payment; State and Local Taxes; Other Payroll; and U.S. Employee Allotment Account, Savings Bonds.

(In Millions of Dollars)	2009	2008
Fund Balances:		
Trust Funds	\$ 4	\$ 4
General Funds	8,801	9,242
Other Fund Types	49	46
	<hr/>	<hr/>
Total	\$ 8,854	\$ 9,292

The status of Fund Balance with Treasury represents the total fund balance as reflected in the general ledger for unobligated and obligated balances. Unobligated Balances—Available represent the amount remaining in appropriation accounts available for obligation in future fiscal years. Unobligated Balances—Unavailable represent the amount remaining in appropriation accounts only used for adjustments to previously recorded obligations. Obligated Balances—Not Yet Disbursed represent the cumulative amount of obligations incurred, including accounts payable and advances from reimbursable customers, for which outlays have not been made.

(In Millions of Dollars)	2009	2008
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ 1,130	\$ 786
Unavailable	190	208
Obligated Balance Not Yet Disbursed	7,533	8,299
Clearing and Deposit Accounts	1	(1)
	<hr/>	<hr/>
Total	\$ 8,854	\$ 9,292

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 4. INVESTMENTS

The Agency's investments consist of non-marketable par value intragovernmental securities issued by Treasury's Bureau of the Public Debt. The trust fund cash balances are invested in Treasury securities, which are purchased and redeemed at par value exclusively through Treasury's Federal Investment Branch. The effective-interest method was utilized to amortize premiums on bonds, and the straight-line method was utilized to amortize discounts on bills.

The amount of Interest Receivable was below the displayable threshold of a million dollars. In addition, the Agency did not have any adjustments resulting from the sale of securities prior to maturity or any change in value that is more than temporary.

		2009						
(In Millions of Dollars)		Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities:								
Non-Marketable:			Effective-interest and Straight-line					
Par Value	\$ 18	0.185–6.602 %	\$ (1)	\$ —	\$ 17	\$ —	\$ 17	
Total	\$ 18		\$ (1)	\$ —	\$ 17	\$ —	\$ 17	

		2008								
(In Millions of Dollars)		Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosure		
Intragovernmental Securities:										
Non-Marketable:			Effective-interest and Straight-line							
Par Value	\$ 18	0.765–6.602 %	\$ (1)	\$ —	\$ 17	\$ —	\$ 17			
Total	\$ 18		\$ (1)	\$ —	\$ 17	\$ —	\$ 17			

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 5. ACCOUNTS RECEIVABLE, NET

The Accounts Receivable balance represents valid claims by NASA to cash or other assets of another entity. Intragovernmental Accounts Receivable represents reimbursements from other Federal entities for goods and services provided by NASA on a reimbursable basis. Accounts Receivable Due from the Public represents miscellaneous debts due to NASA from employees and/or limited reimbursements from other non-Federal entities. A periodic evaluation of public accounts receivable is performed to estimate any uncollectible amounts based on current status, financial and other relevant characteristics of debtors, and the overall relationship with the debtor. An allowance for doubtful accounts is recorded, for Accounts Receivable Due from the Public, in order to bring Accounts Receivable to its Net Realizable Value in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities*.

		2009		
(In Millions of Dollars)		Accounts Receivable	Allowance for Uncollectible Accounts	Net Amount Due
Intragovernmental		\$ 216	\$ —	\$ 216
Public		2	—	2
Total		\$ 218	\$ —	\$ 218

		2008		
(In Millions of Dollars)		Accounts Receivable	Allowance for Uncollectible Accounts	Net Amount Due
Intragovernmental		\$ 74	\$ —	\$ 74
Public		2	—	2
Total		\$ 76	\$ —	\$ 76

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 6. INVENTORY AND RELATED PROPERTY, NET

Operating Materials and Supplies-Held for Use are tangible personal property to be used in the normal course operations. Operating Materials and Supplies-Held in Reserve for Future Use are tangible personal property held for emergencies.

All materials are valued using historical costs or other valuation methods that approximate historical cost. Excess operating materials and supplies are materials exceeding the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use. Excess, Obsolete, and Unserviceable operating material and supplies are materials no longer needed due to changes in technology, laws, customs, or operations. Unserviceable operating materials and supplies are materials damaged beyond economic repair.

(In Millions of Dollars)	2009	2008
Operating Materials and Supplies		
Items Held for Use	\$ 3,016	\$ 2,855
Items Held in Reserve for Future Use	3	3
Excess, Obsolete, and Unserviceable	—	25
	<hr/>	<hr/>
Total	\$ 3,019	\$ 2,883
	<hr/>	<hr/>

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 7. PROPERTY, PLANT, AND EQUIPMENT, NET (PP&E)

NASA has International Space Station (ISS) bartering agreements with international entities including the European Space Agency and the National Space Agency of Japan. NASA barter with these space agencies to obtain International Space Station hardware elements in exchange for providing goods and services such as Space Shuttle transportation and a share of the International Space Station utilization rights. The intergovernmental agreements state that the parties will seek to minimize the exchange of funds in the cooperative program, including the use of barter to provide goods and services. As of September 30, 2009, NASA has received some assets from these parties in exchange for future services. The fair value is indeterminable; therefore no value was ascribed to these transactions in accordance with FASB ASC 845-10-25 *Non-Monetary Transactions – Recognition* and ASC 845-10-50 *Non-Monetary Transactions - Disclosure*.

In preparation for the release of SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23* NASA performed an analysis of the methodology used to account for the historical costs of ISS the Space Shuttle and Work in Process (WIP). Based on that analysis, adjustments were recorded to ISS and WIP to reflect their estimated cost. Note 17, Restatement reflects the impact of these adjustments on prior periods.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 Are Unaudited)

NOTE 7. PROPERTY, PLANT, AND EQUIPMENT, NET (CONTINUED)

2009					
(In Millions of Dollars)	Depreciation Method	Useful Life	Cost	Accumulated Depreciation	Book Value
Space Exploration PP&E					
International Space Station	Straight-line	5–20 years	\$ 11,456	\$ (5,758)	\$ 5,698
Space Shuttle	Straight-line	5–20 years	10,055	(9,287)	768
Assets Under Construction		N/A	1,303	—	1,303
Work-in-Process—Equipment		N/A	1,180	—	1,180
Total			23,994	(15,045)	8,949
General PP&E					
Land			122	—	122
Structures, Facilities and Leasehold Improvements	Straight-line	15–40 years	7,790	(5,942)	1,848
Institutional Equipment	Straight-line	5–20 years	259	(185)	74
Construction in Process		N/A	506	—	506
Internal Use Software and Development	Straight-line	5 years	219	(141)	78
Total			8,896	(6,268)	2,628
Total Property, Plant, and Equipment			\$ 32,890	\$ (21,313)	\$ 11,577

Restated 2008					
(In Millions of Dollars)	Depreciation Method	Useful Life	Cost	Accumulated Depreciation	Book Value
Space Exploration PP&E					
International Space Station	Straight-line	5–20 years	\$ 10,800	\$ (3,848)	\$ 6,952
Space Shuttle	Straight-line	5–20 years	9,880	(9,134)	746
Assets Under Construction		N/A	1,661	—	1,661
Work-in-Process—Equipment		N/A	3,168	—	3,168
Total			25,509	(12,982)	12,527
General PP&E					
Land			123	—	123
Structures, Facilities and Leasehold Improvements	Straight-line	15–40 years	7,163	(5,530)	1,633
Institutional Equipment	Straight-line	5–20 years	244	(173)	71
Construction in Process		N/A	577	—	577
Internal Use Software and Development	Straight-line	5 years	214	(117)	97
Total			8,321	(5,820)	2,501
Total Property, Plant, and Equipment			\$ 33,830	\$ (18,802)	\$ 15,028

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 8. STEWARDSHIP PP&E

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 29, *Heritage Assets and Stewardship Land*.

Stewardship PP&E consists of items whose physical properties resemble those of general PP&E, but their nature differs in that their values may be indeterminable or have little meaning, or that allocating the cost of such assets (depreciation) to accounting periods is meaningless. The only type of stewardship PP&E owned by NASA are heritage assets.

Heritage assets are property, plant, and equipment which possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics. NASA's heritage assets include buildings and structures designated as National Historic Landmarks and air and spacecraft and related components on display to enhance public understanding of NASA programs.

Since the cost of heritage assets is usually not determinable, NASA does not value them or establish minimum value thresholds for designation of property, plant, or equipment as heritage assets. Additionally, the useful lives of heritage assets are not reasonably estimable for depreciation purposes. Since the most relevant information about heritage assets is their existence, they are qualified in terms of physical units, as follows:

	2008	Additions	Withdrawals	2009
Buildings and Structures	18	0	6	12
Air and Space Displays and Artifacts	521	8	6	523
Art and Miscellaneous Items	1,015	0	1	1,014
Total Heritage Assets	1,554	8	13	1,549
	2007	Additions	Withdrawals	2008
Buildings and Structures	18	1	1	18
Air and Space Displays and Artifacts	526	6	11	521
Art and Miscellaneous Items	1,018	5	8	1,015
Total Heritage Assets	1,562	12	20	1,554

Heritage assets were generally acquired through construction by NASA or its contractors, and are expected to remain in this category, except where there is legal authority for transfer or sale. Heritage assets are generally in fair condition, suitable only for display. Heritage assets are withdrawn when they become inactive or multi-use heritage assets.

Many of the buildings and structures are designated as National Historic Landmarks. Numerous air and spacecraft and related components are on display at various locations to enhance public understanding of NASA programs. NASA eliminated their cost from its property records when they were designated as heritage assets. A portion of the amount reported for deferred maintenance is for heritage assets.

For more than 30 years, the NASA Art Program has documented America's major accomplishments in aeronautics and space. During that time, artists have generously contributed their time and talent to record their impressions of the U.S. Aerospace Program in paintings, drawings, and other media. Not only do these art works provide a historic record of NASA projects, they give the public a new and fuller understanding of advancements in aerospace. Artists give a special view of NASA through the back door. Some have witnessed astronauts in training or scientists at work. The art collection, as a whole, depicts a wide range of subjects, from Space Shuttle launches to aeronautics research, the Hubble Space Telescope, and even virtual reality.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 8. STEWARDSHIP PP&E (CONTINUED)

Artists commissioned by NASA receive a small honorarium in exchange for donating a minimum of one piece to the NASA archive. In addition, more works have been donated to the National Air and Space Museum.

In accordance with SFFAS No. 29, the cost of acquisition, improvement, reconstruction, or renovation of heritage assets is expensed in the period incurred.

As defined by SFFAS No. 29, heritage assets that are used in day-to-day government operations are considered "multi-use" heritage assets that are not used for heritage purposes. Such assets are accounted for as general property, plant, and equipment and are capitalized and depreciated in the same manner as other general property, plant, and equipment. For FY 2009 NASA had 89 buildings, structures, and equipment that are considered to be multi-use heritage assets. The values of these assets are included in the property, plant, and equipment values shown in the Financial Statements and Note 7, Property, Plant, and Equipment, Net.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. They include certain environmental matters (Note 10, Environmental and Disposal Liabilities), legal claims, pensions and other retirement benefits, workers' compensation, annual leave, and closed appropriations.

NASA has recorded Accounts Payable related to closed appropriations for which there are contractual commitments to pay. These payables will be funded from appropriations available for obligation at the time a bill is processed, in accordance with P.L. 101-510, National Defense Authorization Act for Fiscal Year 1991.

(In Millions of Dollars)	2009	2008
Intragovernmental Liabilities:		
Other Liabilities		
Workers' Compensation	\$ 14	\$ 16
Accounts Payable for Closed Appropriations	8	7
Total Intragovernmental	<u>22</u>	<u>23</u>
Public Liabilities:		
Accounts Payable		
Accounts Payable for Closed Appropriations	34	71
Federal Employee and Veteran Benefits		
Actuarial FECA Liability	57	64
Environmental and Disposal Liabilities	922	943
Other Liabilities		
Unfunded Annual Leave	208	196
Contingent Liabilities	—	6
Total Liabilities Not Covered by Budgetary Resources	1,243	1,303
Total Liabilities Covered by Budgetary Resources	2,906	2,945
Total Liabilities	\$ 4,149	\$ 4,248

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 10. ENVIRONMENTAL AND DISPOSAL LIABILITIES

(in Millions of Dollars)	2009	2008
Probable		
Known Hazardous Conditions	\$ 812	\$ 943
Anticipated Cleanup at Disposal: Space Shuttle	110	—
Total	\$ 922	\$ 943
Reasonably Possible		
Known Hazardous Conditions	\$ 17	\$ 93
Anticipated Cleanup at Disposal: Space Shuttle	54	—
Anticipated Cleanup at Disposal: Other PP&E	7 - 19	—
Total	\$ 78 - 90	\$ 93

Environmental and Disposal Liabilities represents cleanup costs resulting from:

- Operations that include facilities obtained from other governmental entities that have resulted in contamination from waste disposal methods, leaks and spills.
- Other past activity that created a public health or environmental risk.
- Total cleanup costs associated with the removal, containment, and/or disposal of hazardous wastes or material and/or property that have been deferred until operation of associated Property, Plant, and Equipment (PP&E) ceases either permanently or temporarily.

Federal, State, and local statutes and regulations require environmental cleanup. Some of these statutes include: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Nuclear Waste Policy Act of 1982; as well as State and local laws.

NASA assesses the likelihood of required cleanup as probable, reasonably possible or remote. If the likelihood of required cleanup is probable and the cost can be reasonably estimated, a liability is recorded in the financial statements. If the likelihood of required cleanup is reasonably possible, the estimated cost of cleanup is disclosed in the notes to the financial statements. If the likelihood of required cleanup is remote, no liability is recorded or estimate disclosed.

If site-specific engineering estimates for cleanup are not available, NASA employs parametric modeling software to estimate the total cost of cleaning up known contamination at these sites for current and future years. The estimates calculated by the parametric models may be classified as probable or reasonably possible.

Consistent with Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, NASA estimates the anticipated environmental disposal cleanup costs for current and planned capital property, plant and equipment (PP&E). NASA recognizes and records in its financial statements an environmental cleanup liability for those in-service PP&E with a probable and measurable environmental cleanup liability of \$100,000 or more.

Probable Environmental and Disposal Liabilities

In FY 2009, NASA recorded \$812 million as an unfunded liability to reflect the estimated total cost of environmental cleanup on known hazardous conditions. The amount recorded in FY 2008 was \$943 million. The decrease is due to changes in individual project estimates and the treatment of estimates beyond 30 years. If a sufficiently reliable engineering estimate has been developed beyond this 30 year period, such estimate will be considered in developing the accrual (see Note 1). The estimate could change in the future due to identification of additional contamination, inflation, deflation, or a change in technology or applicable laws and regulations as well as through ordinary liquidation of these liabilities as the cleanup program continues into the future. Estimates change primarily due to updated information being available on the extent of contamination and remediation efforts that would be required.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 10. ENVIRONMENTAL AND DISPOSAL LIABILITIES

NASA has developed an estimated cost for decontamination of the Space Shuttles at the time of their retirement in FY 2010. Current estimates indicate probable unfunded cleanup costs at the time of disposal through FY 2012 of \$110 million.

Reasonably Possible Environmental and Disposal Liabilities

In addition to the probable cleanup costs for known hazardous conditions recognized in the financial statements, there are other potential remediation sites where the likelihood of required cleanup for known hazardous conditions is reasonably possible. FY 2009 remediation costs at certain sites classified as reasonably possible were estimated at \$17 million. In FY 2008, these remediation costs were estimated at \$93 million.

NASA estimated \$1 million of Space Shuttle disposal costs (for the periods FY 2013 through FY 2015) as reasonably possible. Additionally, costs necessary to cleanup Space Shuttle equipment for museum display are expected to be the responsibility of the institution displaying the equipment. If NASA is required to incur those additional costs, then costs may increase by \$53 million.

Current estimates indicate a reasonable possibility that disposal-related cleanup costs for PP&E other than Space Shuttle may result in total environmental cleanup costs of between \$7 million and \$19 million. Consistent with NASA's approach described above, this reasonably possible estimate is not recorded but is disclosed in the financial statements.

The International Space Station (ISS) is designed and planned to be de-orbited over the Pacific Ocean. The ISS will be destroyed during reentry. Accordingly, no end-of-life environmental liability is anticipated for the ISS.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 11. OTHER LIABILITIES

	2009		
(In Millions of Dollars)	Current	Non-Current	Total
Intragovernmental Liabilities			
Advances from Others	\$ 110	\$ —	\$ 110
Workers' Compensation	5	9	14
Employer Contributions and Payroll Taxes	22	—	22
Liability for Deposit and Clearing Funds	1	—	1
Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity	—	—	—
Other Accrued Liabilities	6	—	6
Total Intragovernmental	144	9	153
Unfunded Annual Leave	—	208	208
Accrued Funded Payroll	106	—	106
Advances from Others	57	—	57
Employer Contributions and Payroll Taxes	4	—	4
Contract Holdbacks	—	—	—
Contingent Liabilities	—	—	—
Other Accrued Liabilities	1,258	—	1,258
Total with the Public	1,425	208	1,633
Total Other Liabilities	\$ 1,569	\$ 217	\$ 1,786

	2008		
(In Millions of Dollars)	Current	Non-Current	Total
Intragovernmental Liabilities			
Advances from Others	\$ 79	\$ —	\$ 79
Workers' Compensation	7	9	16
Employer Contributions and Payroll Taxes	14	—	14
Liability for Deposit and Clearing Funds	(1)	—	(1)
Other Accrued Liabilities	1	—	1
Total Intragovernmental	100	9	109
Unfunded Annual Leave	—	196	196
Accrued Funded Payroll	90	—	90
Advances from Others	62	—	62
Employer Contributions and Payroll Taxes	22	—	22
Contract Holdbacks	1	—	1
Contingent Liabilities	—	6	6
Other Accrued Liabilities	1,238	—	1,238
Total with the Public	1,413	202	1,615
Total Other Liabilities	\$ 1,513	\$ 211	\$ 1,724

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 12. CONTINGENT LIABILITIES

NASA is a party in various administrative proceedings, court actions (including tort suits), and claims. For cases management and legal counsel believe it is probable that the outcomes will result in a loss to the Agency, liabilities have been recorded for September 30, 2009 and September 30, 2008 in the amounts of \$0 million and \$6 million, respectively. There were certain cases reviewed by legal counsel where the probable future loss could not be reasonably estimated and as such no liability has been recorded in connection with these cases.

There is one case where the likelihood of loss is reasonably possible, with the loss estimated at \$20 million for September 30, 2009 and a range of loss from \$1 million to \$10 million for September 30, 2008.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 13. INTRAGOVERNMENTAL COST AND EXCHANGE REVENUE

Intragovernmental costs and revenue are exchange transactions made between NASA and another Federal Government reporting entity. Costs and revenue with the Public result from transactions between NASA and a non-Federal entity.

(In Millions of Dollars)	2009	2008
Aeronautics Research		
Intragovernmental Costs	\$ 43	\$ 52
Public Cost	785	727
Total Aeronautics Research Costs	828	779
Intragovernmental Earned Revenue	94	62
Public Earned Revenue	19	24
Total Aeronautics Research Earned Revenue	113	86
Total Aeronautics Research Net Cost	715	693
Exploration Systems		
Intragovernmental Costs	228	220
Public Cost	4,925	4,591
Total Exploration Systems Costs	5,153	4,811
Intragovernmental Earned Revenue	19	12
Public Earned Revenue	14	16
Total Exploration Systems Earned Revenue	33	28
Total Exploration Systems Net Cost	5,120	4,783
Science		
Intragovernmental Costs	395	369
Public Cost	6,211	6,023
Total Science Costs	6,606	6,392
Intragovernmental Earned Revenue	595	494
Public Earned Revenue	21	17
Total Science Earned Revenue	616	511
Total Science Net Cost	5,990	5,881
Space Operations		
Intragovernmental Costs	471	458
Public Cost	10,599	6,991
Total Space Operations Costs	11,070	7,449
Intragovernmental Earned Revenue	349	320
Public Earned Revenue	79	98
Total Space Operations Earned Revenue	428	418
Total Space Operations Net Cost	10,642	7,031
Net Cost of Operations	\$ 22,467	\$ 18,388

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Category A consists of amounts requested to be apportioned for each calendar quarter in the fiscal year. Category B consists of amounts requested to be apportioned on a basis other than calendar quarters, such as time periods other than quarters, activities, projects, objects, or a combination thereof.

(In Millions of Dollars)	2009	2008
Direct Obligations:		
Category A	\$ 1	\$ 1
Category B	18,701	19,176
Reimbursable Obligations:		
Category B	1,475	1,122
Total Obligations Incurred	\$ 20,177	\$ 20,299

NOTE 15. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE U.S. GOVERNMENT

The *FY 2011 Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2009 has not been published as of the issue date of these financial statements. The FY 2011 President's Budget is scheduled for publication in 2010.

NASA reconciled the amounts of the FY 2008 column on the Statement of Budgetary Resources (SBR) to the actual amounts for FY 2008 in the FY 2010 President's Budget for budgetary resources, obligations incurred, distributed offsetting receipts and net outlays as presented below.

(In Millions of Dollars)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 21,293	\$ 20,299	\$ (1)	\$ 17,840
Included on SBR, not in President's Budget				
Expired Accounts	(317)	(139)	—	—
Distributed Offsetting Receipts	—	—	1	—
Other	—	(1)	—	(3)
Budget of the United States Government	\$ 20,976	\$ 20,159	\$ —	\$ 17,837

The difference between the Statement of Budgetary Resources and the President's Budget represents expired, unobligated balances reported on the SBR but not in the *Budget of the United States Government* and other is primarily rounding.

NOTE 16. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders at the end of the period totaled \$5,798 million and \$6,188 million as of September 30, 2009 and September 30, 2008, respectively.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 17. RESTATEMENT

In preparation for the release of SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23* NASA performed an analysis of the methodology used to account for the historical costs of the International Space Station (ISS) the Space Shuttle and Work in Process (WIP). Based on that analysis, adjustments were recorded to ISS and WIP to reflect their estimated cost.

This analysis resulted in a decrease to the beginning balance of Cumulative Results of Operations on the Statement of Changes in Net Position of \$6.6 billion.

National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 are Unaudited)

NOTE 18. RECONCILIATION OF NET COST TO BUDGET

Statement of Federal Financial Accounting Standards No. 7 (SFFAS 7), *Accounting for Revenues and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires a reconciliation of proprietary and budgetary accounting information. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources.

The Statement of Financing is intended to provide assurance certain financial information is consistent with similar amounts found in budget reports. This note reconciles obligations of budget authority to the accrual-based net cost of operations. The Net Cost of Operations as presented on the Statement of Financing is determined by netting the obligations as adjusted and non-budgetary resources and making adjustments for the total resources that do not fund net cost of operations, the total costs that do not require resources, and financing sources yet to be provided. The result is Net Cost of Operations as reported on the Statement of Net Cost.

(In Millions of Dollars)

Resources Used to Finance Activities

Budgetary Resources Obligated

Obligations Incurred

Less: Spending Authority from Offsetting Collections and Recoveries

Obligations Net of Offsetting Collections and Recoveries

Less: Offsetting Receipts

Net Obligations

	2009	2008
	\$ 20,177	\$ 20,299
	1,766	1,539
	18,411	18,760
	1	(1)
	18,410	18,761

Other Resources

Donations & Forfeitures of Property

Transfers In/Out Without Reimbursements

Imputed Financing from Costs Absorbed by Others

Net Other Resources Used to Finance Activities

	10	—
	57	2
	151	143
	218	145

Total Resources Used to Finance Activities

	18,628	18,906
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Resources Used to Finance Items Not Part of the Net Cost of Operations

Change in Budgetary Resources Obligated for Goods, Services, and

Benefits Ordered But Not Yet Provided

Resources That Fund Expenses Recognized in Prior Periods

Resources that Finance the Acquisition of Assets

Other Resources or Adjustments to Net Obligated Resources That Do Not

Affect Net Cost of Operations

	583	(584)
	(71)	(29)
	(3,023)	(5,868)
	(67)	(2)

Total Resources Used to Finance Items Not Part of the Net Cost of Operations

	(2,578)	(6,483)
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Total Resources Used to Finance the Net Cost of Operations

	\$ 16,050	\$ 12,423
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National Aeronautics and Space Administration
Notes to Financial Statements
(Fiscal Years 2009 and 2008 Are Unaudited)

NOTE 18. RECONCILIATION OF NET COST TO BUDGET (CONTINUED)

(In Millions of Dollars)

	2009	2008
Components of Net Cost That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increases in Annual Leave Liability	\$ 12	\$ 14
Other	<u>—</u>	<u>5</u>
Total Components of Net Cost that Will Require or Generate Resources in Future Periods	<u>12</u>	<u>19</u>
Components Not Requiring or Generating Resources		
Depreciation	2,511	2,405
Revaluation of Assets or Liabilities	(62)	6
Other	<u>3,956</u>	<u>3,535</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	<u>6,405</u>	<u>5,946</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>6,417</u>	<u>5,965</u>
Net Cost of Operations	<u>\$ 22,467</u>	<u>\$ 18,388</u>

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Research and Development Expenses by Business Lines

NASA's programs and activities are carried out through four Business Lines: Aeronautics Research, Exploration Systems, Science and Space Operations. Each Business Line is comprised of multiple themes and numerous programs comprise each theme. In FY 2006 NASA's former enterprise structure was mapped to the new Business Line structure and NASA reports Research and Development (R&D) expenses using the new structure. Therefore, R&D expenses are now reported on a program not Enterprise basis. This is NASA's fourth year reporting under this new structure.

To provide the reader with a full picture of NASA expenses, both R&D and non-R&D, NASA has included expenses for non R&D costs associated with NASA activities such as Education and Outreach, Space Operations Programs. Descriptions for the work associated with these costs are also presented.

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Research and Development Expenses by Business Line by Theme by Program

(In Millions of Dollars)	2009	2008	2007	2006
Aeronautics Research				
Aeronautics Technology				
Aviation Safety	\$ 79	\$ 81	\$ 64	\$ 152
Airspace Systems	124	108	87	144
Fundamental Aeronautics	442	438	405	754
Aeronautics Test	70	66	38	—
Aeronautics Technology Total	715	693	594	1,050
Aeronautics Research Total	\$ 715	\$ 693	\$ 594	\$ 1,050
Exploration Systems				
Constellation Systems				
Constellation Systems	\$ 4,539	\$ 4,093	\$ 2,385	\$ 1,419
Constellation Systems Total	4,539	4,093	2,385	1,419
Exploration Systems Research & Technology				
Exploration Technology Development	304	267	306	—
Lunar Precursor Robotic Program	94	124	149	95
Prometheus Nuclear Systems & Technology	2	3	14	—
Nuclear Flight Systems	—	11	—	24
Advanced Systems and Technology	—	—	—	291
Advance Space Technology	11	38	—	3
Technology Maturation	—	12	—	111
Exploration Systems Research & Technology Total	411	455	469	524
Human Systems Research & Technology				
Life Support & Habitation	6	59	130	361
Human Health & Performance	7	90	160	136
Human Research Program	157	80	—	—
Human Systems Integration	—	6	44	174
Human Systems Research & Technology Total	170	235	334	671
Exploration Systems Total	\$ 5,120	\$ 4,783	\$ 3,188	\$ 2,614

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Research and Development Expenses by Business Line by Theme by Program (Continued)

(In Millions of Dollars)	2009	2008	2007	2006
Science				
Planetary Science				
Discovery	\$ —	\$ 72	\$ 129	\$ 127
New Frontiers	296	97	107	107
Technology	1,695	1,413	941	1,277
Deep Space Mission Systems (DSMS)	71	228	221	187
New Millennium	8	3	—	—
Planetary Science Research	—	—	255	321
Mars Exploration	409	779	699	599
Planetary Science Total	<u>2,479</u>	<u>2,592</u>	<u>2,352</u>	<u>2,618</u>
Astrophysics				
Navigator	73	56	88	87
James Webb Space Telescope	63	407	324	315
Hubble Space Telescope	42	216	135	452
SOFIA	21	63	51	—
Gamma-ray Large Space Telescope GLAST)	15	60	70	87
Discovery	230	114	110	114
Astrophysics Explorer	118	85	69	58
Astrophysics Research	247	258	226	225
Cosmic Origins	584	—	—	—
Physics of the Cosmos	87	—	—	—
Heliophysics Explorer	38	56	—	—
Heliophysics Research	158	77	—	—
International Space Science Collaboration	10	18	15	6
Beyond Einstein	8	15	12	8
Astrophysics Total	<u>1,694</u>	<u>1,425</u>	<u>1,100</u>	<u>1,352</u>
Earth–Sun System				
Earth Systematic Missions	514	341	201	293
Living with a Star	179	153	163	257
Solar Terrestrial Probes	89	60	47	95
Explorer	—	—	78	114
Earth System Science Pathfinder	98	121	119	104
Earth–Sun System Multi-Mission Operations	139	167	209	290
Earth–Sun System Division	10	622	718	926
Near Earth Networks	9	47	—	—
Earth Science Research	423	—	—	—
Planetary Science Research	238	277	—	—
Applied Sciences	47	53	60	48
Earth–Sun Technology	57	—	85	82
Earth–Sun System	<u>1,803</u>	<u>1,841</u>	<u>1,680</u>	<u>2,209</u>
Science Total	<u>\$ 5,976</u>	<u>\$ 5,858</u>	<u>\$ 5,132</u>	<u>\$ 6,179</u>
Total Research & Development Expenses	<u>\$ 11,811</u>	<u>\$ 11,334</u>	<u>\$ 8,914</u>	<u>\$ 9,843</u>

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development
Non-Research and Development Expenses by Business Line by Theme by Program

(In Millions of Dollars)	2009	2008	2007	2006
Science				
Astrophysics				
SOFIA	\$ —	\$ —	\$ —	\$ 58
Earth–Sun System				
Education and Outreach	14	23	22	40
Science Total	\$ 14	\$ 23	\$ 22	\$ 98
Space Operations				
Space Shuttle				
Space Shuttle	\$ 3,285	\$ 3,306	\$ 3,351	\$ 4,245
Hurricane Recovery	—	94	85	—
Subtotal Space Shuttle	3,285	3,400	3,436	4,245
International Space Station	2,166	1,588	1,402	1,705
Space and Flight Support (SFS)				
Space Communications	547	210	152	—
Launch Services	4,589	1,780	1,102	—
Rocket Propulsion Testing	46	44	43	—
Crew Health & Safety	9	9	7	—
Space and Flight Support	—	—	—	1,743
Subtotal Space and Flight Support (SFS)	5,191	2,043	1,304	1,743
Space Operations Total	\$ 10,642	\$ 7,031	\$ 6,142	\$ 7,693
Total Non-Research & Development Expenses	\$ 10,656	\$ 7,054	\$ 6,164	\$ 7,791
Total Expenses	\$ 22,467	\$ 18,388	\$ 15,078	\$ 17,634

**National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development**

NASA makes substantial research and development investments for the benefit of the United States. These amounts are expensed as incurred in determining the net cost of operations.

NASA's research and development programs include activities to extend our knowledge of Earth, its space environment, and the universe, and to invest in new aeronautics and advanced space transportation technologies that support the development and application of technologies critical to the economic, scientific, and technical competitiveness of the United States.

Investment in research and development refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of the following:

Basic Research: Systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind;

Applied Research: Systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and

Development: Systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems or methods, including the design and development of prototypes and processes.

Business Line Theme and Program Descriptions

BUSINESS LINE: AERONAUTICS

Theme: Aeronautics Technology (AT)

Aeronautics Technology develops technologies to improve aircraft and air system safety, security and performance; reduce aircraft noise and emissions; and increase the capacity of the National Airspace System (NAS).

Program: Aviation Safety (AvSP)

The Aviation Safety Program (AvSP) develops innovative tools, concepts, methods, and technologies that will improve the intrinsic safety attributes of current and future aircraft, and that will help overcome aviation safety challenges that would otherwise constrain the full realization of the Next Generation Air Transportation System (NextGen).

Program: Airspace Systems Program (ASP)

The Airspace Systems Program conducts research to enable NextGen capabilities such as foundational research in multi-aircraft flow and airspace optimization, trajectory design and conformance, separation methods, and adaptive systems. The Program research for the airspace and airport domains is integrated into gate-to-gate solutions.

Program: Fundamental Aeronautics

The Fundamental Aeronautics Program (FAP) conducts research to enable the design of vehicles that fly through any atmosphere at any speed. Future aircraft must address multiple design challenges, and therefore a key focus will be the development of physics-based, multidisciplinary design, analysis, and optimization (MDAO) tools.

Program: Aeronautics Test Program

The Aeronautics Test Program (ATP) is dedicated to the mastery and intellectual stewardship of the core competencies of Aeronautics testing, both on the ground and in the air. ATP's purpose is to ensure the strategic availability of a minimum, critical suite of aeronautical test facilities which are necessary to meet the long-term needs and requirements of the nation.

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

BUSINESS LINE: EXPLORATION SYSTEMS

Theme: Constellation Systems

Through the Constellation Systems Theme NASA will develop, demonstrate, and deploy the collection of systems that will enable sustained human and robotic exploration of the Moon, Mars, and beyond.

Program: Constellation Systems

The Constellation Systems program (which replaced the Earth Orbit Capability program) objective is to develop, demonstrate, and deploy the capabilities to transport crew and cargo for missions to the lunar surface safely return the crew to Earth.

Theme: Advanced Capabilities

The Advanced Capabilities Theme provides knowledge, technology, and innovation that will enable current and future exploration missions.

Program: Exploration Technology Development

The Exploration Technology Development Program (ETDP) develops new technologies that will enable NASA to conduct future human and robotic exploration missions, while reducing mission risk and cost. By maturing new technologies to the level of demonstration in a relevant environment early enough to support a flight system's Preliminary Design Review, NASA can significantly reduce both cost and risk.

Program: Lunar Precursor Robotic

The Lunar Precursor Robotic program supports America's return to the Moon by executing lunar robotic missions to conduct research and prepare for future human exploration. These missions will gather data important for reducing the risks to astronauts, identify resources, and map the lunar environment.

Program: Human Research

The Human Research program (HRP) investigates and mitigates the highest risks to human health and performance in support of NASA exploration missions. ESMD and Constellation Systems documents provide the mission architecture definitions, mission concepts of operations, vehicle, habitat, and space suit performance requirements, and other technical information needed to focus the HRP efforts for specific exploration missions. HRP conducts research, develops countermeasures, and undertakes technology development to inform and support compliance with NASA's health, medical, human performance, and environmental standards.

BUSINESS LINE: SCIENCE

Theme: Planetary Science

The Planetary Science Theme advances scientific knowledge of the origin and history of the solar system, including the history of life and whether it evolved beyond Earth. Equally important is finding resources, evaluating, and mitigating the risks to humans that will be encountered as we conduct an overall balanced program of science, exploration, and aeronautics consistent with the redirection of the human spaceflight program to focus on exploration.

Program: Discovery

NASA's Discovery program gives scientists the opportunity to find innovative ways to unlock the mysteries of the solar system. It provides lower-cost, highly focused planetary science investigations designed to enhance our understanding of the solar system. The Discovery program offers the scientific community the opportunity to assemble a team and design exciting, focused science investigations that complement NASA's larger planetary science explorations.

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Program: New Frontiers

The New Frontiers program, a class of competed medium-sized missions, represents a critical step in the advancement of the solar system exploration. Proposed science targets for the New Frontiers program include Pluto and the Kuiper Belt, Jupiter, Venus, and sample returns from Earth's Moon and a comet nucleus.

Program: Technology

Robotic spacecraft use electrical power for propulsion, data acquisition, and communication to accurately place themselves in orbit around and onto the surfaces of bodies about which we may know relatively little. These systems ensure that they survive and function in hostile and unknown environments, acquire and transmit data throughout their lifetimes, and sometimes transport samples back to Earth. Since successful completion of these missions is so dependent on power, the future Planetary Science program portfolio of missions will demand advances in power and propulsion systems.

Program: Planetary Science Research

The Planetary Science Research program develops the theoretical tools and laboratory data needed to analyze flight data, makes possible new and better instruments to fly on future missions, and analyzes the data returned so that the program can answer specific questions posed and fit this new knowledge into the overall picture of the solar system.

Program: Mars Exploration

The Mars Exploration program has been developed to conduct a rigorous, incremental, discovery-driven exploration of Mars to determine the planet's physical, dynamic, and geological characteristics, investigate the Martian climate in the context of understanding habitability, and investigate whether Mars ever had the potential to develop and harbor any kind of life.

Theme: Astrophysics

The Astrophysics Theme seeks to understand the cycles of matter and energy that formed, evolve, and govern the universe, and how they created the unique conditions that support life. Where are we from? Are we alone? NASA searches for answers to these questions looking far away, towards the beginning of time, to see galaxies forming, and close to home, in search of planetary systems like Earth around nearby stars.

Program: Navigator

The Navigator program consists of a coherent series of increasingly challenging projects, each complementary to the others and each mission building on the results and capabilities of those that preceded it as NASA searches for habitable planets outside of the solar system.

Program: The James Webb Space Telescope (JWST)

The program identified by the National Research Council as the top priority for astronomy and physics for the current decade--is a large, deployable infrared astronomical space-based observatory. The mission is a logical successor to the HST, extending beyond Hubble's discoveries into the infrared, where the highly redshifted early universe must be observed, where cool objects like protostars and protoplanetary disks emit strongly, and where dust obscures shorter wavelengths.

Program: Hubble Space Telescope

Since 1990, the HST has used its pointing precision, powerful optics, and state-of-the-art instruments to explore the visible, ultraviolet and near-infrared regions of the electromagnetic spectrum. Until such time that Hubble is no longer able to carry out its scientific mission, the observatory will continue to investigate the formation, structure, and evolution of stars and galaxies, studying the history of the universe, and providing a space-based research facility for optical astronomy. Hubble development funding supports a suite of life extension activities, which will maximize science return as the telescope's capabilities degrade over time. In addition, a robotic spacecraft is under development to be launched on an expendable launch vehicle, rendezvous with HST, and safely deorbit the observatory at the end of its useful science life. While this development activity is underway, modification and upkeep of ground operations systems will continue.

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Program: SOFIA

The Stratospheric Observatory for Infrared Astronomy (SOFIA) program offers a unique world-class facility for infrared astronomy covering parts of the spectrum that cannot be covered from the ground. As a result, SOFIA will provide unique insights into scientific questions regarding energetics of luminous galaxies, the origin of stars and planetary systems, gas and grain chemistry of the interstellar medium, and the structure of the solar system.

Program: Gamma-ray Large Area Space Telescope (GLAST)

A collaboration with the Department of Energy, France, Italy, Sweden, Japan, and Germany, the Gamma-ray Large Area Space Telescope (GLAST) will improve researchers' understanding of the structure of the universe, from its earliest beginnings to its ultimate fate. By measuring the direction, energy, and arrival time of celestial high-energy gamma rays, GLAST will map the sky with 50 times the sensitivity of previous missions, with corresponding improvements in resolution and coverage. Yielding new insights into the sources of high-energy cosmic gamma rays, GLAST will reveal the nature of astrophysical jets and relativistic flows and study the sources of gamma-ray bursts.

Program: Discovery

The Discovery program gives scientists the opportunity to dig deep into their imaginations and find innovative ways to unlock the mysteries of the solar system. Discovery is an ongoing program that offers the scientific community the opportunity to assemble a team and design exciting, focused science investigations that complement NASA's larger planetary science explorations.

Program: Astrophysics Explorer

The Astrophysics Explorer program (formerly Explorer) provides frequent flight opportunities for world-class astrophysics and space physics investigations, utilizing innovative, streamlined and efficient management approaches to spacecraft development and operations. The program (including Future Explorers) is managed within the Earth -Sun Theme, but selected projects are managed under the Universe Theme.

Program: Astrophysics Research

The Astrophysics Research program (formerly Universe Research) strives to answer critical questions about the nature of the universe with a host of operating missions led by investigators from academia and industry, as well as funding grants for basic research, technology development, and data analysis from past and current missions. All data collected by missions are archived in data centers located at universities and NASA centers throughout the country.

Program: Cosmic Origins

Discover how the universe developed over cosmic time from the big bang to its modern configuration of galaxies, stars and planets. The focus is to explore how the expanding universe grew into a grand, cosmic web of galaxies; how within the galaxies stars and planets formed; and how stars create the heavy elements such as carbon, oxygen, and iron that are essential for life.

Program: Physics of the Cosmos

Reveal laws and forces of the universe at the most fundamental level in ways that can only be done from space. Missions will probe back to the beginning of time by measuring the cosmic microwave background radiation in novel ways and using gravity waves as an entirely new window on the universe. The nature of dark matter that shepherds the growth of galaxies and large-scale structure will be determined, the mysterious dark energy pervading the universe will be uncovered and the limits of Einstein's theories will be tested.

Program: International Space Science Collaboration (SSC)

Herschel and Planck, two projects in the International Space Science Collaboration (SSC) Program, are European Space Agency (ESA)-led missions. Herschel has been designed to unveil a face of the early universe that has remained hidden until now. Planck will help provide answers to one of the most important sets of questions asked in modern science: how did the universe begin, how did it evolve to the state we observe today, and how will it continue to evolve in the future?

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
(Fiscal Years 2009, 2008, 2007, and 2006 Are Unaudited)
Stewardship Investments: Research and Development

Program: Beyond Einstein

Beyond Einstein missions seek to explain the phenomena associated with Albert Einstein's theory of general relativity, and thereby better understand the phenomena that govern the universe. To find answers, scientists must move beyond Einstein's theory; they must employ new techniques and launch missions to observe the universe in new and advanced ways. They must test and validate these new theories and enjoin heretofore separate fields like astronomy and particle physics.

Theme: Earth Science

NASA studies this dynamic Earth system to trace effect to cause, connect variability and forcing with response, and vastly improve national capabilities to predict climate, weather, natural hazards, and conditions in the space environment.

Program: Earth Science Research

The Earth Science Research Program improves the capability to document the global distribution of a range of important environmental parameters related to the Earth's atmosphere, hydrosphere, biosphere, cryosphere, and land surface; to understand the processes that drive and connect them; and to improve our capability to predict the future evolution of the Earth system, including climate, weather, and natural hazards.

Program: Applied Sciences

The Applied Sciences Program is focused on working with Federal agencies and national organizations to extend the use of technology and data associated with NASA's constellation of Earth system observing spacecraft. These spacecraft, which routinely make measurements using dozens of research instruments, are used by a community of Earth system scientists in laboratories, universities, and research institutions throughout the country, and around the world, to model the Earth system and improve predictions, projections, and forecasts.

Program: Earth Science System Multi-Mission Operations

The Earth Science Multi-Mission Operations Program acquires, preserves, and distributes observational data to support Earth Science focus areas in conformance with national science objectives. Facilities involved in this undertaking include data-handling, data processing, and archiving systems.

Program: Earth Systematic Missions

Earth Systematic Missions provide Earth observing satellites that contribute to the provision of long-term environmental data sets that can be used to study the evolution of the Earth system on a range of temporal scales. This information is used to analyze, model, and improve understanding of the Earth system.

Program: Earth System Science Pathfinder (ESSP)

This program addresses unique, specific, highly-focused mission requirements in Earth science research. ESSP includes a series of relatively low to moderate cost, small to medium sized, competitively selected, principal investigator led missions that are built, tested, and launched in a short time interval. These missions are capable of supporting a variety of scientific objectives related to Earth science, involving the atmosphere, oceans, land surface, polar ice regions and solid earth.

Program: Earth Science Technology

The Earth Science Technology Program (ESTP) provides the Earth Science Theme with new capabilities, enabling previously unforeseen or infeasible science investigations, enhancing existing measurement capabilities, and reducing the cost, risk, and development times of Earth science measurements.

Theme: Heliophysics

The Heliophysics Theme studies the science of the Sun-Solar System Connection to: (1) understand the Sun and its effects on Earth, the solar system, and the space environmental conditions that will be experienced by explorers, and (2) demonstrate technologies that can improve future operational systems.

Program: Heliophysics Research

The Heliophysics Research program undertakes scientific investigations utilizing operational spacebased and suborbital platforms (surface, balloon, aircraft, and rocket). The program also funds basic research and modeling utilizing the results of the full array of NASA's missions.

Program: Deep Space Mission Systems (DSMS)

The Deep Space Mission System (DSMS) program enables human and robotic exploration of the solar system and beyond by providing reliable, high-performance, and cost-effective telecommunications and navigation services.

Program: Living with a Star

The Living with a Star (LWS) program seeks to understand how and why the Sun varies, how Earth and other planets respond, and how the variability and response affect humanity. Achieving these goals will enable a reliable space weather prediction so undesirable space weather effects can be accommodated or mitigated before they occur.

Program: Solar Terrestrial Probes (STP)

The primary goal of the Solar Terrestrial Probes (STP) Program is to understand how the Sun, heliosphere, and planetary environments are connected in a single system.

Program: Heliophysics Explorer

The Heliophysics Explorer program provides frequent flight opportunities for world-class astrophysics and space physics investigations, using innovative, streamlined and efficient management approaches to spacecraft development and operations. The program is composed of an on-going series of space science missions that are independent, but share a common funding and management structure. The program emphasizes missions that can be accomplished under the control of the scientific research community and seeks to control total mission life-cycle costs. It also seeks to enhance public awareness of, and appreciation for, space science and to incorporate educational and public outreach activities.

Program: Near Earth Networks

The Near Earth Networks program provides multi-mission driven space flight tracking, telemetry and command, meteorological and photo-optical services and associated activities of customer interface, network and range scheduling, cross-cutting maintenance and systems engineering, facilities, safety, and security. These services are for near-Earth spaceflight missions, including human space flight (Space Shuttle Program and Constellation), sounding rockets, and near-Earth orbital flight in support of Science missions, Space Operations, Exploration Systems, and aeronautics services for unmanned aerial vehicle, aircraft, and rockets in support of upper atmospheric research.

Program: New Millennium

The New Millennium Program (NMP) is a technology flight validation program designed to retire risk of key emerging and breakthrough technologies to enable future NASA science missions. The objectives are to capitalize on investments being made in U.S. technological capabilities and accelerate the incorporation of payoff, advanced technologies into future science missions by conducting in-space validation missions, when the technologies must be tested in space in order to be validated. NMP allows NASA to conduct technology maturation and validation in low-cost NMP projects, rather than during science mission development.

NON-R&D Programs

BUSINESS LINE: SCIENCE

Theme: Earth Science

Program: Education and Outreach

The Earth Science Education and Outreach Program seeks to make the discoveries and knowledge generated from NASA's Earth-observing satellites and scientific research (including applied science) accessible to students, teachers, and the public. It addresses workforce preparation and the education pipeline, and engages the public in better understanding NASA Earth Science research results from space.

BUSINESS LINE: SPACE OPERATIONS

Theme: Space Shuttle

The Space Shuttle is currently the only launch capability owned by the United States that enables human access to space, and the only vehicle that can support the assembly of the International Space Station (ISS). NASA will phase-out the Space Shuttle in 2010 when its role in ISS assembly is complete.

Program: Space Shuttle

In FY 2008, the Space Shuttle Program completed four ISS assembly flights, which included the launch of major research facility modules from the European Space Agency and Japan. In FY 2009, the Space Shuttle Program manifest calls for completing the SM4 servicing mission to the Hubble Space Telescope.

Program: Hurricane Recovery

The Hurricane Recovery program includes emergency supplemental costs for Hurricane Katrina response and recovery.

Theme: International Space Station

This Theme supports the construction and operations of a research facility in low Earth orbit as NASA's first step in achieving the Vision for Space Exploration. The ISS provides a unique, continuously operating capability to develop medical countermeasures for long-term human space travel; develop and test technologies and engineering solutions in support of exploration; and provide ongoing practical experience in living and working in space. It also supports a variety of pure and applied research for the U.S. and its International Partners. ISS assembly will be completed by the end of the decade. NASA is examining configurations for the Space Station that meet the needs of both the new space exploration vision and our international partners using as few Shuttle flights as possible. A key element of the ISS program is the crew and cargo services project, which will purchase services for cargo and crew transport using existing and emerging capabilities.

Theme: Space and Flight Support

This theme encompasses Space Communications, Launch Services, Rocket Propulsion Testing, and Crew Health and Safety. Space Communications consists of (1) the Tracking and Data Relay Satellite System (TDRSS), which supports activities such as the Space Shuttle, ISS, Expendable Launch Vehicles, and research aircraft, and (2) the NASA Integrated Services Network, which provides telecommunications services at facilities, such as flight support networks, mission control centers and science facilities, and administrative communications networks for NASA Centers. The Launch Services program focuses on meeting the Agency's launch and payload processing requirements by assuring safe and cost-effective access to space via the Space Shuttle and expendable launch vehicles.

Program: Space Communications

The Space Communications Program (SCP) links flight missions to Earth to accomplish mission objectives. NASA's backbone of communications capabilities reliably transmits data between the ground control centers and the flight missions. These capabilities keep the missions operating safely and return volumes of science and technology data that has led to innumerable discoveries about Earth, the solar system, and the universe.

Program: Launch Services

The Launch Services Program, which works closely with other government agencies and the launch industry, seeks to ensure that the most safe, reliable, on-time, cost-effective launch opportunities are available on a wide range of launch systems.

Program: Rocket Propulsion Testing

As the principal implementing authority for NASA's rocket propulsion testing, the Rocket Propulsion Test (RPT) Program reviews, approves, and provides direction on rocket propulsion test assignments, capital asset improvements, test facility modernizations and refurbishments, integration for multi-site test activities, identification and protection of core capabilities, and the advancement and development of test technologies.

Program: Crew Health & Safety

The health care of the NASA Astronaut Corps is the responsibility of space medical operations at the Johnson Space Center. A portion of the responsibilities for that care is managed within the Crew Health and Safety program (CHS). CHS enables the following: 1) healthy and productive crew during all phases of spaceflight missions; 2) implementation of a comprehensive health care program for astronauts; and 3) the prevention and mitigation of negative long-term health consequences of space flight.

National Aeronautics and Space Administration
Required Supplementary Information
Combined Schedule of Budgetary Resources
(For the Fiscal Year Ended September 30, 2009, Unaudited)

(In Millions of Dollars)	Space Operations	Science Mission	Exploration Mission	Aeronautics Mission	Cross-Agency Mission	Education Mission	Office of Inspector General	American Recovery and Reinvestment Act	Exploration, Science, and Aeronautics	Other	Total
<u>Budgetary Resources</u>											
Unobligated Balance, Brought Forward, October 1	\$ 245	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ 694	\$ 52	\$ 994
Recoveries of Prior Year Obligations	101	—	—	—	—	—	—	—	191	36	328
Budget Authority:											
Appropriation	5,765	4,503	3,506	500	3,306	169	34	1,002	—	1	18,786
Spending Authority from Offsetting Collections											
Earned											
Collected	162	—	—	—	466	—	—	—	400	77	1,105
Change in Receivable from Federal Sources	(27)	—	—	—	190	—	—	1	(23)	—	141
Change in Unfilled Orders											
Advance Received	(47)	—	—	—	137	—	—	—	(64)	1	27
Without Advance from Federal Sources	(96)	—	—	—	567	—	—	46	(337)	(15)	165
Subtotal	5,757	4,503	3,506	500	4,666	169	34	1,049	(24)	64	20,224
Nonexpenditure Transfers, Net:											
Actual Transfers, Budget Authority	—	—	—	—	—	—	—	—	—	—	—
Actual Transfers, Unobligated Balances	—	—	—	—	—	—	—	—	—	—	—
Permanently Not Available											
Cancellations of Expired and No-year Accounts	—	—	—	—	—	—	(1)	—	—	(48)	(49)
Enacted Reductions	—	—	—	—	—	—	—	—	—	—	—
Total Budgetary Resources	\$ 6,103	\$ 4,503	\$ 3,506	\$ 500	\$ 4,666	\$ 169	\$ 36	\$ 1,049	\$ 861	\$ 104	\$ 21,497
<u>Status of Budgetary Resources</u>											
Obligations Incurred:											
Direct:	\$ 5,969	\$ 4,441	\$ 3,459	\$ 496	\$ 3,245	\$ 141	\$ 33	\$ 393	\$ 524	\$ 1	\$ 18,702
Reimbursable:	43	—	—	—	1,130	—	1	48	174	79	1,475
Subtotal	6,012	4,441	3,459	496	4,375	141	34	441	698	80	20,177
Unobligated Balance:											
Apportioned	43	62	47	4	291	28	—	608	31	16	1,130
Subtotal	43	62	47	4	291	28	—	608	31	16	1,130
Unobligated Balance Not Available	48	—	—	—	—	—	2	—	132	8	190
Total Status of Budgetary Resources	\$ 6,103	\$ 4,503	\$ 3,506	\$ 500	\$ 4,666	\$ 169	\$ 36	\$ 1,049	\$ 861	\$ 104	\$ 21,497
<u>Change in Obligated Balance</u>											
Obligated Balance, Net, October 1	\$ 2,236	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ 5,975	\$ 85	\$ 8,299
Obligations Incurred	6,012	4,441	3,459	496	4,375	141	34	441	698	80	20,177
Less: Gross Outlays	6,836	2,199	2,350	286	2,738	24	32	38	5,714	92	20,309
Less: Recoveries of Prior Year Unpaid Obligations	101	—	—	—	—	—	—	—	191	36	328
Change in Uncollected Customer Payments from Federal Sources	122	—	—	—	(757)	—	—	(47)	360	16	(306)
	\$ 1,433	\$ 2,242	\$ 1,109	\$ 210	\$ 880	\$ 117	\$ 5	\$ 356	\$ 1,128	\$ 53	\$ 7,533
Obligated Balance, Net, End of Period											
Unpaid Obligations	\$ 1,449	\$ 2,242	\$ 1,109	\$ 210	\$ 1,637	\$ 117	\$ 5	\$ 404	\$ 1,290	\$ 53	\$ 8,516
Less: Uncollected Customer Payments from Federal Sources	16	—	—	—	757	—	—	48	162	—	983
Total, Unpaid Obligated Balance, Net, End of Period	\$ 1,433	\$ 2,242	\$ 1,109	\$ 210	\$ 880	\$ 117	\$ 5	\$ 356	\$ 1,128	\$ 53	\$ 7,533
<u>Outlays</u>											
Net Outlays:											
Gross Outlays	\$ 6,836	\$ 2,199	\$ 2,350	\$ 286	\$ 2,738	\$ 24	\$ 32	\$ 38	\$ 5,714	\$ 96	\$ 20,313
Less: Offsetting Collections	115	—	—	—	603	—	—	—	336	82	1,136
Less: Distributed Offsetting Receipts	—	—	—	—	—	—	—	—	—	1	1
Net Outlays	\$ 6,721	\$ 2,199	\$ 2,350	\$ 286	\$ 2,135	\$ 24	\$ 32	\$ 38	\$ 5,378	\$ 13	\$ 19,176

National Aeronautics and Space Administration
Required Supplementary Information
Combined Schedule of Budgetary Resources
(For the Fiscal Year Ended September 30, 2008, Unaudited)

(In Millions of Dollars)	Exploration, Science, and Aeronautics	Space Operations	Office of Inspector General	Other	Total
<u>Budgetary Resources</u>					
Unobligated Balance, Brought Forward, October 1	\$ 1,847	\$ 648	\$ 4	\$ 95	\$ 2,594
Recoveries of Prior Year Obligations	331	170	—	47	548
Budget Authority:					
Appropriation	10,606	6,763	33	1	17,403
Spending Authority from Offsetting Collections					
Earned					
Collected	675	366	—	79	1,120
Change in Receivable from Federal Sources	(45)	(12)	—	(7)	(64)
Change in Unfilled Orders					
Advance Received	(2)	(3)	—	(2)	(7)
Without Advance from Federal Sources	52	(114)	—	4	(58)
Subtotal	11,286	7,000	33	75	18,394
Nonexpenditure Transfers, Net:					
Actual Transfers, Budget Authority	165	(165)	—	—	—
Actual Transfers, Unobligated Balances	5	8	—	(13)	—
Permanently Not Available					
Cancellations of Expired and No-year Accounts	—	—	(1)	(50)	(51)
Enacted Reductions	(166)	(25)	—	(1)	(192)
Total Budgetary Resources	\$ 13,468	\$ 7,636	\$ 36	\$ 153	\$ 21,293
<u>Status of Budgetary Resources</u>					
Obligations Incurred:					
Direct:	\$ 12,091	\$ 7,036	\$ 33	\$ 17	\$ 19,177
Reimbursable:	683	355	—	84	1,122
Subtotal	12,774	7,391	33	101	20,299
Unobligated Balance:					
Apportioned	587	182	—	17	786
Unobligated Balance Not Available	107	63	3	35	208
Total Status of Budgetary Resources	\$ 13,468	\$ 7,636	\$ 36	\$ 153	\$ 21,293
<u>Change in Obligated Balance</u>					
Obligated Balance, Net, October 1	\$ 5,494	\$ 1,725	\$ 5	\$ 154	\$ 7,378
Obligations Incurred	12,774	7,391	33	101	20,299
Less: Gross Outlays	11,956	6,836	34	126	18,952
Less: Recoveries of Prior Year Unpaid Obligations	331	170	—	47	548
Change in Uncollected Customer Payments from Federal Sources	(7)	126	—	3	122
	\$ 5,974	\$ 2,236	\$ 4	\$ 85	\$ 8,299
Obligated Balance, Net, End of Period					
Unpaid Obligations	\$ 6,497	\$ 2,374	\$ 4	\$ 100	\$ 8,975
Less: Uncollected Customer Payments from Federal Sources	523	138	—	15	676
Total, Unpaid Obligated Balance, Net, End of Period	\$ 5,974	\$ 2,236	\$ 4	\$ 85	\$ 8,299
<u>Outlays</u>					
Net Outlays:					
Gross Outlays	\$ 11,956	\$ 6,836	\$ 34	\$ 126	\$ 18,952
Less: Offsetting Collections	673	363	—	77	1,113
Less: Distributed Offsetting Receipts	—	—	—	(1)	(1)
Net Outlays	\$ 11,283	\$ 6,473	\$ 34	\$ 50	\$ 17,840

National Aeronautics and Space Administration
Required Supplementary Information
(Fiscal Years 2009 and 2008 are Unaudited)
Deferred Maintenance

NASA uses a Deferred Maintenance parametric estimating method (DM method) in order to conduct a consistent condition assessment of its facilities. This method measures NASA's current real property asset condition and to document real property deterioration. The DM method produces both a parametric cost estimate of deferred maintenance, and a Facility Condition Index (FCI). Both measures are indicators of the overall condition of NASA's facility assets. The facilities condition assessment methodology involves an independent, rapid visual assessment of nine different systems within each facility to include: structure, roof, exterior, interior finishes, HVAC, electrical, plumbing, conveyance, and program support equipment. The DM method is designed for application to a large population of facilities; results are not necessarily applicable for individual facilities or small populations of facilities. Under this methodology, NASA defines acceptable operating conditions in accordance with standards comparable to those used in private industry, including the aerospace industry.

There has been no significant change in our deferred maintenance parametric estimating method this year. The Agency-wide FCI, based on the ratings obtained during the condition assessment site visits, remains unchanged from the previous fiscal year. The FCI values for the majority of individual Centers and sites varied less than 0.5, validating the relative stability of the Centers and sites despite the continued aging and deterioration of older facilities. Evaluation of the facility conditions by building type (Real Property Classification Code/DM Category) indicates that the Agency continues to focus maintenance and repair on direct mission-related facilities. Higher condition ratings are reported for potable water facilities, launch, communication and tracking, and fuel facilities Agency-wide. Lower condition ratings occur for infrastructure, site related systems, and static test stands.

(In Millions of Dollars)	2009	2008
Deferred Maintenance Method		
Facility Condition Index (FCI)	3.6	3.6
Target Facility Condition Index	3.8	3.8
Deferred Maintenance Estimate (Active and Inactive Facilities)	\$ 2,547	\$ 2,463



November 13, 2009

TO: Administrator
Chief Financial Officer

FROM: Acting Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration's
Fiscal Year 2009 Financial Statements (Report No. IG-10-002;
Assignment No. A-09-006-00)

Under the Chief Financial Officers Act of 1990, NASA's financial statements are to be audited in accordance with generally accepted government auditing standards. The Office of Inspector General contracted with the independent public accounting firm Ernst & Young LLP (E&Y) to audit NASA's financial statements in accordance with the Government Accountability Office's "Government Auditing Standards" and the Office of Management and Budget's Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended.

In the "Report of Independent Auditors" (Enclosure 1), E&Y disclaimed an opinion on NASA's financial statements for the fiscal years ended September 30, 2009 and 2008. While the Agency made significant progress in improving its financial processes and systems, the disclaimer resulted from continued weaknesses in internal controls over accounting for legacy property, plant, and equipment (PP&E).

The E&Y "Report on Internal Control" (Enclosure 2) identifies three significant deficiencies, with one considered a material weakness. A material weakness was found in NASA's controls for assuring that property, plant, and equipment and materials are presented fairly in the financial statements. The two significant deficiencies involve NASA's (1) process for estimating environmental liabilities and (2) compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). E&Y's report contains specific recommendations that are intended to help the Agency in remediating all three deficiencies during FY 2010.

The E&Y "Report on Compliance with Laws and Regulations" (Enclosure 3) identifies certain instances where NASA's financial management systems did not substantially comply with the requirements of FFMIA. Specific issues include information technology controls over the financial systems and the integration of the real property system with the Core Financial module.

In fulfilling our responsibilities under the Chief Financial Officers Act of 1990, we monitored the progress of the audit, reviewed E&Y's reports and related documentation, inquired of its representatives, and ensured that E&Y met contractual requirements. Our

review was not intended to enable us to express, and we do not express, an opinion on NASA's financial statements; conclusions about the effectiveness of internal controls over financial reporting; or compliance with certain laws and regulations, including, but not limited to, FFMIA.

E&Y is responsible for each of the enclosed reports and the conclusions expressed therein. Our review, while still ongoing, disclosed no instances where E&Y did not comply, in all material respects, with the Government Accountability Office's "Government Auditing Standards."

We hope that you find the reports useful. Please contact me if you have questions.

signed

Thomas J. Howard

3 Enclosures

Report of Independent Auditors

To the Administrator and the Acting Inspector General
of the National Aeronautics and Space Administration

We were engaged to audit the accompanying consolidated balance sheets of the National Aeronautics and Space Administration (NASA) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of NASA's management.

During fiscal year 2009, NASA continued its focused efforts to resolve long-term issues identified in its financial management processes and systems. Although significant progress has been made, NASA management and our work continue to identify issues related to internal control in its property accounting, principally relating to assets capitalized in prior years. As a result of these limitations, we were unable to obtain sufficient evidential support for the amounts presented in the consolidated balance sheets as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the fiscal years then ended.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated balance sheets as of September 30, 2009 and 2008, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the fiscal years then ended.

The information presented in Management's Discussion and Analysis, required supplementary stewardship information, required supplementary information, and other accompanying information is not a required part of the basic financial statements but is supplementary information required by the Office of Management and Budget (OMB) Circular No. A-136. The other accompanying information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it. We were unable to apply to the information certain procedures prescribed by professional standards within the time frames established by OMB because of the limitations on the scope of our audit of the financial statements discussed above.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have also issued our reports dated November 9, 2009, on our consideration of NASA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our work.

Ernst & Young LLP

November 9, 2009

Report on Internal Control

To the Administrator and the Acting Inspector General
of the National Aeronautics and Space Administration

We were engaged to audit the financial statements of the National Aeronautics and Space Administration (NASA or the Agency) as of and for the year ended September 30, 2009, and have issued our report thereon dated November 9, 2009. The report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated balance sheet as of September 30, 2009, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended.

In planning and performing our audit, we considered NASA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NASA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NASA's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget (OMB) Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies related to Enhancements Needed for Controls over Legacy Property, Plant and Equipment (PP&E) and Materials Contracts, to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies related to Processes in Estimating NASA's Environmental Liability Continue to Require Enhancements and Financial Management Systems Not in Substantial Compliance with FFMIA to be significant deficiencies.

Material Weakness

Enhancements Needed for Controls over Legacy PP&E and Materials Contracts, But SFFAS No. 35 Adoption May Aid In Resolving This Longstanding Issue (Modified Repeat Condition)

Prior-year audit reviews of legacy PP&E identified serious weaknesses in the design of internal controls over the completeness and accuracy of legacy assets which prevented material misstatements from being detected and corrected in a timely manner by NASA. Certain legacy issues noted in prior-year audit reports continue to challenge the Agency, particularly in relation to the International Space Station (ISS) and Space Shuttles. During FY 2009, NASA management undertook a systematic process to address the valuation and completeness issues related to the ISS and Space Shuttle assets in anticipation of an FY 2009 release of the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 35, *Estimating the Historical Cost of G-PP&E*, which was ultimately released in FY 2010. This standard is expected to substantially improve NASA's ability to account for these assets in accordance with generally accepted accounting principles in FY 2010. Note that Space Shuttle assets will be fully depreciated in FY 2010 as they will have reached the end of their useful lives and this timing coincides with the Space Shuttle Transition program. Adoption of changes in the internal control process associated with new contracts also holds promise in resolving these issues over time.

During the past several years, NASA has continued to revise and correct its records for legacy assets to address these legacy issues. These legacy issues fundamentally flowed from the lack of a robust control structure whereby NASA did not determine at the point of budget formulation, obligation recognition, contract development, accounts payable recognition or disbursement the amounts of property it expects to buy, has contracted for or has purchased. For example:

- In FY 2007, NASA recorded a \$12.7 billion adjustment to write off the net book value (NBV) of legacy assets (previously reported as "theme assets") which it believed were inappropriately capitalized since NASA's implementation of SFFAS No. 6, *Accounting for Property Plant and Equipment*, in FY 1998. NASA recorded this adjustment as a change in accounting principle based upon a technical release issued by the Accounting and Auditing Policy Committee of the FASAB. Prior to this cumulative effect adjustment, the NBV of NASA's PP&E was \$33.3 billion as of September 30, 2006.

- In FY 2008, NASA recorded an adjustment of \$2.9 billion to expense costs previously capitalized as launch costs during the year as these costs were associated with taking foreign-owned components, rather than government-owned components, to the ISS. Prior to this year-end adjustment, the NBV of NASA's PP&E would have been \$24.5 billion as of September 30, 2008. The process to correct this item in FY 2008 was an indicator of the effectiveness of some of the financial management review processes which NASA had been developing, but also highlighted the need for the development of consistent controls regarding capitalization approaches, with appropriately vetted position papers and notification for pending areas of review to ensure that no significant year-end adjustments are needed. As noted below, launch cost calculations were revisited in FY 2009, and additional errors were noted.
- In FY 2009, NASA recorded a series of adjustments during the third and fourth quarters to correct for additional errors in the valuation of legacy assets related to the accounting for launch costs and integration and operational costs capitalized as part of the ISS. During NASA's analysis of the accounting for launch costs, management concluded that prior methodologies and amounts recorded were inaccurate since FY 1998, when the first component of the ISS was carried by the Space Shuttle. Management recorded a \$5.2 billion adjustment to write off the NBV of previously capitalized launch costs. Management revised its methodology during FY 2009 and, based upon its new estimates, it recorded an adjustment of \$84 million to capitalize the NBV of launch costs. In our initial reviews of management's revised methodology, developed in anticipation of the release of SFFAS No. 35, and estimation for capitalized launch costs, we noted that estimates were not fully supported by prior historical cost data, but management believes it has sufficient information to support reasonable estimates of such costs consistent with SFFAS No. 35 which will be effective in FY 2010.

Ongoing efforts by NASA management to develop a robust and rigorous review process that both validates and challenges the adequacy of estimation techniques used and the sufficiency of documentation supporting those conclusions will serve NASA management well in preparing for the audit of these estimates. This type of ongoing control activity is crucial for the Agency as it implements and sustains any estimation modeling for valuing components of its PP&E. For the integration and operational costs, NASA noted that it had been capitalizing Integration and Operations (I&O) costs associated with the ISS after the ISS was placed into service on September 30, 2001. According to NASA's inquiries of an ISS specialist, these costs included ground and flight support, maintenance and repairs and NASA's current financial management team concluded these costs should have been expensed as operation costs and not capitalized. Management recorded a \$1.4 billion adjustment to write off the NBV of previously capitalized I&O costs. Prior to these FY 2009 recorded adjustments, the NBV of NASA's PP&E would have been \$18.1 billion as of September 30, 2009.

Progress has been made in revising NASA's policies and NASA has gained a deeper understanding of the components of its capitalized assets. The adoption of SFFAS No. 35, *Estimating the Historical Cost of G-PP&E*, in FY 2010 provides a unique opportunity for NASA to address the legacy valuation issues which have impaired its ability to prepare auditable financial statements. As noted above, issues regarding whether broad components of PP&E should be recorded have arisen and been addressed over the last several years, in each case calling into question the reliability of prior processes and reported amounts. In connection with critically assessing management's reported amounts for PP&E in FY 2010 and subsequent years, as valuation issues are addressed utilizing the ongoing flexibility in the new FASAB guidance, the need to ensure that property records are complete and property items can be associated with estimates of their original acquisition costs consistent with the guidance in SFFAS No. 35 will loom larger. Subjecting such processes to rigorous self-assessment under management's internal control review process under OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A - *Internal Control over Financial Reporting*, and robust assessments of the legacy property records for completeness and accuracy, perhaps in conjunction with ongoing monitoring activities, will serve NASA well in ensuring that reported amounts are complete and reliable. NASA is currently participating in work groups intended to assist agencies in exploring supportable approaches to developing valuation estimates and supporting such amounts to the extent needed to withstand audit processes, with an initial particular focus on contractor-held property. These deliberations may impact NASA and third-party assessments of whether the initial processes developed by NASA in an effort to address anticipated changes in the FASAB literature conform to the financial management community's implementation guidelines for SFFAS No. 35. Going forward, internal controls, which have been revised to account for acquisitions of property under contracts with effective dates after October 1, 2007, hold promise in addressing new acquisitions; however, the effectiveness of such controls cannot currently be assessed pending issuance of new contracts that would be impacted by this policy.

Recommendation

We recommend that NASA:

1. Continue to actively improve implementation of SFFAS No. 35. Areas for particular focus include: (1) appropriate approaches in critically assessing prior recorded amounts for legacy assets when the initial documentation to support recorded amounts is not available, and the extent to which such initial recorded amounts, perhaps in conjunction with budgetary or other collaborative information, can be viewed as reasonable estimates; and (2) the extent to which the entity must associate ongoing outlays with individual items of PP&E versus recording amounts based on contractor-provided estimates in bulk, particularly for legacy contracts which do not contain current NASA requirements intending to aid in identifying when PP&E is being acquired, and NASA's responsibilities to verify reported amounts.

2. Develop an overarching key control activity that provides for a robust and rigorous review that both validates and challenges the adequacy of estimation techniques used and the sufficiency of documentation supporting those conclusions. This type of ongoing control activity is crucial for NASA as it implements and sustains any estimation modeling for valuing components of its PP&E. In addition, management should utilize existing monitoring activities and internal control assessments with a particular emphasis at the Center level in demonstrating that a comprehensive control process has been used to verify that detail property records are complete and reflect all PP&E, are reconciled to the recorded amounts in the general ledger, constitute NASA's best estimates consistent with SFFAS No. 35 of the historical costs of such items and that available information to aid in collaborating such amounts has been validated and appropriately considered.

Significant Deficiencies

Processes in Estimating NASA's Environmental Liability Continue to Require Enhancement (Modified Repeat Condition)

NASA's environmental liability is estimated at \$922 million as of September 30, 2009, including the estimated environmental cleanup cost associated with PP&E. We noted that the NASA Office of the Chief Financial Officer (OCFO) and the Environmental Management Division (EMD) invested resources to resolve our prior-year finding related to the internal controls for the unfunded environmental liability (UEL) estimation process. NASA developed an estimate in September 2009 of the anticipated environmental cleanup costs associated with PP&E, implementing our prior recommendation to develop such estimate in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. The joint review process, a key control NASA implemented to enhance its estimation processes, began to mature in FY 2009 and added additional consistency to the UEL estimation process. While NASA continues to make year-to-year progress, we noted weaknesses in NASA's ability to generate an auditable estimate on a timely basis of its UEL environmental cleanup costs and its environmental liabilities associated with PP&E. Specifically:

- While the estimates for environmental costs associated with PP&E were not provided with sufficient time to support the audit process, NASA has acknowledged a need to develop training and controls supporting the development of the estimates, and noted that the estimates were initially developed under severe time constraints and resource limitations. To the extent further such resources and adequate time are devoted to this process, changes in the estimates may emerge. This includes but is not limited to the reclassification of SFFAS No. 5 liabilities to SFFAS No. 6.

- Approximately \$170 million, or 17% of the UEL estimate, is developed using the parametric models within NASA's Integrated Data Evaluation & Analysis Library (IDEAL) estimating software. NASA has not completed the design and implementation of its general and application controls for this model. Examples include: NASA-prepared security plans for IDEAL, in which it indicated that actions to mitigate security risks need to be resolved. NASA finalized its Configuration Management Plan and verification reports for five centers in October 2009. A preliminary assessment noted that the Configuration Management Plan did not address system audits or reporting. We noted that preliminary analysis of the verification reports revealed certain unit costs embedded in IDEAL indicate that such factors may be overstated by 100% and 300%, but NASA has not yet fully assessed how, if at all, to change the models for this finding, or completed an analysis of other such inputs. In addition, NASA has had large year-to-year changes in environmental estimates, due in part to varying interpretations of certain markup definitions in the software and, as discussed below, revisions to its process used in assessing the number of years for which sufficiently reliable cost estimates can be developed.
- During FY 2009, NASA revised its estimation process to reflect that in general UEL estimates for the first 30 years of a project's lifespan will be recorded as a liability in the NASA financial statements. While the guidance is under continued revision, it is our understanding that if a sufficiently reliable engineering estimate has been developed beyond this 30-year period, such estimate will be considered in developing the accrual. This revision in the estimation process resulted in an approximate 25% reduction in the accrual for the related estimates. The process to develop this revision in NASA's procedures called into question the extent of coordination between OCFO and EMD, with aspects of the policy as initially articulated not conforming to GAAP. In addition, no formalized process for calculating and aggregating the SFFAS No. 5 reasonably possible estimate has been established. In FY 2009, an initial reasonably possible estimate was intended in part to capture the portion of long-term UEL estimates which exceeded 30 years and by definition, under NASA's policy, was judged not to be sufficiently reliable to record in the accrual, calling into question the reliability of the information for disclosure purposes as well. The estimate was compiled and aggregated by EMD with little support from the individual project managers, and OCFO was not aware of the process.

Recommendation

As it relates to the estimation of environmental liabilities, we recommend that NASA:

1. Enhance and formalize the process it has developed to estimate environmental cleanup costs under SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, including dedicating additional resources to ensure compliance with the requirements, implementing internal controls and developing training. To the extent a portion of the previously reported environmental liability estimates subsume closure costs more appropriately recognized under SFFAS No. 6, NASA financial reporting can be enhanced by reclassification of footnote disclosures for such costs.
2. Complete the development and implementation of general and application controls as they relate to IDEAL. The initial focus should be on demonstrating the accuracy of both the parametric model and aggregation output. An alternative recommendation is to use a commercially available software tool that already meets these conditions.
3. Recode IDEAL to simplify markup inputs. For example, at present, the prime contractor markup is comprised of two embedded components to capture markup for the prime contractor and subcontractor, which should be revised to only allow input for one NASA component at a time. Re-emphasize in the annual training provided to NASA's center EMD and OCFO personnel the explanations of these entries.
4. Implement preventative actions (i.e., controls) to address change management for accounting policy alterations to environmental liabilities and implement rigorous quality control efforts regarding associated footnote disclosures of reasonably possible and recorded amounts, including explicit discussion and conclusion on these items in the joint review process. Assign roles and responsibilities for implementation and for proper communication throughout the organization.

Financial Management Systems Not in Substantial Compliance with FFMIA (Modified Repeat Condition)

NASA's financial management systems are not substantially compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA). During FY 2009, as discussed above, NASA management took action to address its noncompliance with the FFMIA. Although these steps corrected certain weaknesses noted during the past five years, other weaknesses continue to exist. Specific weaknesses noted include the following:

- The real property system is not integrated with the Core Financial Module.

- Issues related to access and change management were noted as a result of information technology (IT) audit procedures. The level of risk associated with these IT issues depends in part upon the extent to which financial-related compensating controls (such as reconciliations and data integrity reviews of output) are in place and operating effectively throughout the audit period. Certain of these controls designed to detect errors or inappropriate processing may also not be executed in a manner which can be expected to identify errors, which, while perhaps not material to the financial statements as a whole, may subject NASA to risks regarding safeguarding of assets. Although NASA has made progress in addressing and resolving prior-year IT findings, these IT-related issues, along with issues noted by Ernst & Young, the Government Accountability Office (GAO) and the NASA Office of Inspector General (OIG) in their reviews through the year, merit continued management focus.
- NASA was unable to meet certain requirements to ensure compliance with federal accounting standards, as discussed in various sections within this report.

Recommendation

We recommend that NASA:

1. Move forward to integrate government-held real property transactions into the Asset Accounting Module of SAP in February 2010 and continue efforts to integrate recording of PP&E transactions contemporaneous with their occurrence,
2. Resolve issues identified during our IT procedures in our audit related to access and change management surrounding its financial management systems.

Other Matters

Summary of FY 2008 Material Weaknesses

Issue Area FY 2008	Summary Control Issue FY 2008	FY 2009 Status
Material Weaknesses		
Financial Systems, Analyses, and Oversight	<ul style="list-style-type: none"> Continuous Monitoring Program Financial Statement Preparation Process Continued Efforts needed to Resolve Data Integrity Issues Processes in estimating NASA's Environmental Liabilities continue to require enhancements. Financial management systems not in substantial compliance with FFMIA. 	Significant improvements noted. Aspects related to UEL and FFMIA compliance reported as significant deficiencies.
Enhancements Needed for Controls over PP&E and Materials Contracts	<ul style="list-style-type: none"> Enhancements Needed for Controls over Legacy PP&E and Materials Contracts 	Improvements noted pending SFFAS No. 35 adoption. Modified repeat condition.

* * * * *

We have reviewed our findings and recommendations with NASA management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to address the findings identified in this report.

This report is intended solely for the information and use of the management and the OIG of NASA, OMB, GAO and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 9, 2009

Report on Compliance with Laws and Regulations

To the Administrator and the Acting Inspector General
of the National Aeronautics and Space Administration

We were engaged to audit the financial statements of the National Aeronautics and Space Administration (NASA) as of and for the year ended September 30, 2009, and have issued our report thereon dated November 9, 2009. The report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated balance sheet as of September 30, 2009, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the fiscal year then ended.

The management of NASA is responsible for complying with laws and regulations applicable to NASA. We performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to NASA.

The results of our tests disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Under FFMIA, we are required to report whether NASA's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. However, as noted above, we were unable to complete our audit. Based upon the results of the tests we were able to complete, we noted certain instances, described below, in which NASA's financial management systems did not substantially comply with certain federal system and federal accounting standard requirements:

- The real property system is not integrated with the Core Financial Module.

- Issues related to access and change management were noted as a result of information technology (IT) audit procedures. The level of risk associated with these IT issues depends in part upon the extent to which financial-related compensating controls (such as reconciliations and data integrity reviews of output) are in place and operating effectively throughout the audit period. Certain of these controls designed to detect errors or inappropriate processing may also not be executed in a manner which can be expected to identify errors, which, while perhaps not material to the financial statements as a whole, may subject NASA to risks regarding safeguarding of assets. Although NASA has made progress in addressing and resolving prior-year IT findings, these IT-related issues, along with issues noted by Ernst & Young, the Government Accountability Office (GAO) and NASA Office of Inspector General (OIG) in their reviews through the year, merit continued management focus.
- NASA was unable to meet certain requirements to ensure compliance with federal accounting standards, as discussed in various sections of the Report on Internal Control.

Our Report on Internal Control includes information related to the financial management systems that were found not to comply with the requirements, relevant facts pertaining to the noncompliance and our recommendations related to the specific issues presented. It is our understanding that NASA's management generally agrees with the facts as presented and that relevant comments from NASA's management responsible for addressing the noncompliance are provided as an attachment to this report. We did not audit management's comments and, accordingly, we express no opinion on them.

Because we could not complete our audit, we were unable to determine whether there were other instances of noncompliance with laws and regulations that are required to be reported.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management and the OIG of NASA, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 9, 2009

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001



November 16, 2009

Reply to Attn of:

Office of the Chief Financial Officer

TO: Inspector General

FROM: Deputy Chief Financial Officer

SUBJECT: Management's Response to Independent Auditors' Report for
Fiscal Year 2009

I appreciate the efforts of the Office of Inspector General (OIG), and of the independent auditors under contract with the OIG, to audit the National Aeronautics and Space Administration's (NASA) FY 2009 financial statements. NASA's resolution of the prior year material weakness related to financial systems, analyses, and oversight is a direct result of commitment and focused effort from the entire Agency. This reflects NASA's continuing progress toward an improved audit opinion.

I understand that, due to weaknesses in NASA's internal control over legacy property and materials contracts, the independent auditors were unable to obtain sufficient evidential support for the amounts presented in the Agency's financial statements. Therefore, the auditors did not express an opinion on the consolidated balance sheets as of September 30, 2009 and September 30, 2008, and the related consolidated statements of net costs and changes in net position, and the combined statements of budgetary resources for the fiscal years then ended.

The Agency is committed to resolving the legacy property weaknesses, particularly through the guidance contained in the recently released Statement of Federal Financial Accounting Standard 35, Estimating the Historical Cost of General Property, Plant, and Equipment. We will also continue to address the noted deficiencies related to estimates for unfunded environmental liabilities and compliance with the Federal Financial Management Improvement Act.

A handwritten signature in blue ink that reads "Terry Bowie".

Terry Bowie